



**PHD**

**Political interactions as an influence in the process of organizational change - A study of the reorganization of the electricity industry in Nepal**

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**POLITICAL INTERACTIONS AS AN INFLUENCE IN THE PROCESS OF  
ORGANIZATIONAL CHANGE - A STUDY OF THE REORGANIZATION  
OF THE ELECTRICITY INDUSTRY IN NEPAL**

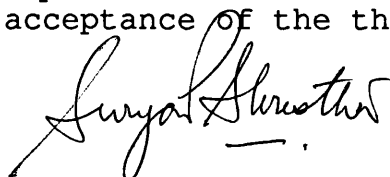
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for the degree of PhD at the University of Bath

1991

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I would like to dedicate this thesis to my family for their love and understanding. To Ma, Ava, Suva and Varun!!

## SUMMARY

This thesis is concerned with exploring the process of change in government-owned and controlled enterprises, that is, the why and how of change and what happens during change, and particularly the role, participation and interactions of individuals in change. The literature on planned change and development is reviewed and it is argued that a "processual" interpretation is missing. On the other hand, very few research have been undertaken on the management of state-owned enterprises in less developed countries and little is known about the experiences and practices of organizational change in these enterprises.

An exploratory research of a major planned change is undertaken and the analysis of the case study reveal that change process can be interpreted in terms of a "political" model. Organizational change is the "resultant" of interactions among key actors and political dynamics may be caused by interests, conflicts and power exercised by the many actors who represent various stakeholders.

Change and order in organizations can be created by joint actions and the negotiated order theory (Strauss) further explores the notion of joint action. The politics of change is interpreted in terms of negotiations and it is argued that change may be a negotiated order. The contribution of the negotiated order theory is closely outlined and discussed and its application for a processual analysis of "problematic" situations (as created by a change situation) is recommended. However, it is also argued that this perspective needs to consider power as a key currency of all negotiations; power relationships can explain the components, occurrences and outcomes of negotiations. This is one of the main shortcomings in the development of the negotiated order theory.

A "political" approach to negotiation is suggested by conceptualising various definitions and interpretation of power relationships and their use in negotiative interactions. The negotiation of the organizational changes in the case study is interpreted in terms of such a framework.

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## **PREFACE**

The approaches to organizational change are largely developed in the field of organizational development and change (OD) where the prevailing concepts and practices seem to be derived from two main sources, systems theory and humanism. These two theories do not adequately extend a processual analysis of organizations in which the complex interrelationship between individuals, groups and contextual factors are considered for inquiry and interpretation; and, therefore, change is often explained in terms of highly rational and linear theories of process. Chapter One begins with an examination of the reviews of OD research literature which critically assess the strengths and weaknesses and highlight the main conceptual themes on organizational change. The reviews clearly indicate the aprocessual analysis of change in OD and this state of affairs can be attributed to OD's conceptual foundations. The final part of the chapter supports inquiry into the change process in state-owned enterprises (SOE's) because of the importance and special characteristics of public enterprises in the economies of developing countries; and a brief introduction of SOE's in Nepal is included.

In Chapter Two, the choice of a methodology which is well-suited to achieve the goals of this research is discussed. The assumptions regarding ontology,

epistemology and human nature are crucial determinants of methodology; and an exploratory, qualitative research is preferred to acquire grounded data. It is argued that the depth interview method of data collection is apposite to capture and interpret the empirical world of social actors and their actions.

Chapter Three presents the social setting in which this research is carried out. Some of the intrinsic background information on the political and economic development of Nepal and the key features of the electricity sector are inspected before discussing the role of the two lending agencies (the Asian Development Bank and World Bank) in the development of the sector. Their initiative on the "reorganization" and creation of a single entity to be operated as a commercial utility is discussed here and further developed in the subsequent chapters. The key elements of the planned changes recommended by the expatriate consultants are summarised. The chapter concludes by suggesting that the "real" implemented changes were diverse from the prescriptions. Chapter Four begins to analyze the change process and explore how and why the changes came about. The investigation identifies various internal and external stakeholders who are related to the reorganization of the electricity sector and who, in turn, have different interests and definitions concerning the change. They undertook various actions to protect and promote their interests; hence a political model can capture the

dynamics of the change process in the context of state-owned enterprises.

The concept of "negotiated order" (Strauss, 1978) is incorporated to the political interpretation of change because change and order can be created by political bargaining and negotiations among key individuals representing the stakeholders. Chapter Five introduces and reviews the development of the negotiated order theory and advocates a careful examination of the power relationships in the analysis of processual dynamics of negotiations. It is argued that power is the essential currency of all negotiations but the development in literature has not made significant contributions to this conceptual field. On the basis of this assessment, the conceptualization of power as developed by Lukes (1974) is proposed for the study of negotiations. Chapter Six uses this framework to explore the four major planned changes in the reorganization of the electricity sector. The detailed examination of each of the changes identifies and analyzes the key actors, their definitions, the negotiation of solutions and the dimension of power exercised in negotiation (using the "three-dimensional" view of power). The outcome of such an interpretation, it is argued, provides a comprehensive understanding of the variety of ways in which power can be exercised in negotiations.

In Chapter Seven, the theoretical contributions of this research in the field of political process of change, and particularly the dynamics of power in negotiations of organizational changes in government-controlled and owned enterprises are covered. Some of the issues related to this investigation on organizational change and negotiations are suggested for further inquiry and analysis.

## CHAPTER ONE

### ORGANIZATIONAL CHANGE IN STATE-OWNED ENTERPRISES

#### Study of Organizational Change

The subject of organizational change has been one of the major areas in the study, research and understanding of organizations. Many writers assert that change is ubiquitous and change has become a way of life in organizations. Various concepts on organizational change have been contributed to the general knowledge of organizations; and "understanding, planning, and influencing change is the prime of organization theory" (Berg, 1979). The organizational behaviour literature has been particularly concerned with change according to Goodman and Kurke (1982):

"Think about leadership, motivation, organizational environment, and roles. It is impossible to think about these and other concepts without inquiring about change."

The effective management of change for the long-term success and survival of organizations has been a major concern of many organizational writers and Pettigrew (1985) drives home this point:



"Given the substantial changes in the economic, political and business environment of large firms over the past two decades, a critical factor affecting the relative competitive position of the British firms must be the capacity of firms to adjust and adapt to major changes in their environments and thereby improve their competitive performance. The importance of these adjustments and adaptation processes suggests that the nature of management itself is a crucial input into the competitive issue."

Goodman (1982) echoes a similar view on management of change for the future success of organizations:

"The need to understand more about the process of change will continue to increase. Organizations are constantly challenged by new technologies, new government policies, international competition, and new demands to improve productivity. To meet these challenges, organizations must adapt and change."

Katz and Georgopoulos (1971) draw attention to processes of adaptation for improving the effectiveness of organizations:

"For organizations to survive and perform their functions effectively in the future, some sizeable proportion of their resources will have to be committed to enlarging their adaptive subsystems to deal with new social inputs. Social effectiveness will have to be added to productive efficiency as an important objective."

On the other hand, one of the most difficult and challenging problems faced by organizational theorists, change specialists and managers is how to create effective change. The difficulties in the management of change is explained by Argyris (1967):

"Anyone who has planned major organizational change knows (a) how difficult it is to foresee accurately all the major problems involved, (b) the enormous amount of time needed to iron out the kinks and get people to accept the change, (c) the apparent lack of internal commitment on the part of many to help make the plan work, manifested partly (d) by people at all levels resisting taking the initiative to make modifications that they see are necessary so that the new plan can work.....I reviewed my notes from thirty-two major reorganizations in large organizations in which I played some consulting and research role, I did not find one that could be labelled as fully completed and integrated three years after the change had been announced .....after three years, there were still many people fighting, ignoring, questioning, resisting, blaming the reorganization without feeling a strong obligation personally to correct the situation."

Kanter (1989) describes the task involved in managing change as a series of "balancing acts" which implies that change is created as a result of human initiatives, actions and interactions:

"We must juggle contradictions, we must make tradeoffs between contrasting goals, and we must steer a goal that does not go too far in any one direction lest events require an about-face. We are perched on a pendulum that is swinging back and forth faster and faster." (Kanter, op. cit.)

This short introduction puts into perspective the challenges of organizational change and the importance of understanding the change process. This study is about organizational change in government-controlled and owned enterprises (referred to as state-owned enterprises). My main interest is to understand the process of change, that is, the processual dynamics of change, the how and why of change, and what actually happens during change. I am particularly interested to explore how people manage

and create change because change occurs in a social setting and people (managers, shareholders, stakeholders, consultants, etc.) as social individuals generally tend to have strong influence and control over its management. Dalton (1973) points out that organizational behaviour is made up of the actions and interactions of the individuals in it and he recommends this approach for understanding organizational change:

"We read so frequently about an organization 'adapting' to market shifts, economic conditions, and scientific discoveries that we slide over the internal processes by which an organization does that adapting".

An organization can be understood in terms of human actions that underline it; hence change can be created out of human action and the change process may be understood in terms of the behaviour of individuals. The individual can be seen as a social actor who "exists in dual systems" (Mangham, 1978), that is, "he is influenced by and influences the social order which he inhabits". A processual analysis of organizations has been suggested by several theorists and I refer to the writings of two proponents to bring out the key components of such an approach. Benson (1977) suggests that a process-oriented analysis will attend "to the micro-processes continuously occurring within the organization and its environment within a particular period of time". Weick (1969) proposes the concept of the social psychology of

organizing which includes a processual approach to organizational analysis:

"An organization can be understood only in terms of the processes that are underway, or its organizing activities, yet it is possible to see regularities in these activities..... the crucial events to be explained are processes, their structuring, modification and dissolving. It is not the tangible fixtures in an organization that are crucial. These merely provide the media through which the processes are expressed."

This study is focused on state-owned enterprises (SOE's) partly because of my experiences with this sector in Nepal as a faculty member of the Nepal Administration Staff College. Being involved with training and several consultancy services to government controlled enterprises, I was generally familiar with the status and management practices of these enterprises. The performance of SOE's is regarded as very unsatisfactory by the government in Nepal and reforms and changes are frequently introduced to "correct" the situation. The government has time and again announced a package of reforms and, in addition, the management has introduced specific changes of their own initiative or on the recommendation of consultants. However, such change and reform decisions tend to create much sensation and raise expectations initially but fizzle out gradually over the next few years. No lasting improvements on performance seem to take place and SOE's continue to be blamed for poor performance and are regarded as a (financial) burden on the national economy even though they have been

assigned commercial objectives. Strangely enough, neither the government nor the management seem to be too concerned about the outcome or more appropriately the "non-outcome" of change and the organizations continue to do what they have been doing in the established manner. This continuity with old established ways seems a very interesting phenomenon and I wish to explore how it is maintained in situations of change. Pettigrew (op. cit.) argues that "the more we look at present-day events the easier it is to identify change; the longer we stay with an emergent process and the further back we go to disentangle its origin, the more we can identify continuities"; he concludes that change and continuity are "inextricably linked". I am interested in studying continuity in relation to human actions directed at certain goals or self-interests. For instance, Handy (1989) states that continuity can ensure comfort and predictability for those who are in control. Thus change and continuity may be interpreted in terms of processes that take place between individuals.

### **The Theoretical Field**

Many of the theories and concepts of organizational change have been developed in the writings and research on planned organizational change and this particular research can be placed within this theoretical framework. Change is treated as planned change in this work and

there is usually the involvement of a change specialist who applies certain techniques or introduces a programme to modify the behaviour of individuals or the organization or both. Planned change used in this sense is synonymous to the practice and principle of organization development (OD). Since its inception in the late forties, the field of OD has grown enormously, thousands of studies have been undertaken on this subject and the largest collection of writings on organizational change is probably contained within this area. Similarly, the origin, growth and development of OD have been very well chronicled by several authors such as French and Bell (1973), Greiner (1977), Back (1972), Friedlander (1976), Solomon (1971). A review of this vast area of literature is outside the scope of this study and is not relevant to my inquiry. My chief interest is to examine and evaluate the OD literature in terms of its contribution to understanding the process of change which may be applicable to state-owned enterprises which is why I chose to undertake an examination of the existing research work on organizational change. Since there have been several major reviews of OD research literature (starting in the early seventies) that critically examine their strengths and weakness and highlight the main conceptual themes on organizational change, I have decided to look closely into the work of these writers with a view to using these reviews to evaluate the general direction and achievements of OD so far and, furthermore, examine the concepts of the process of

change that have been developed by these authors. The selection of authors and their work is by no means exhaustive but my analysis may give a picture of the writings on OD since the early seventies.

From a review of 175 references through the 1973-74 period, Friedlander and Brown (1974) concluded that one of the key concerns of OD writers has been the development of methods for facilitating change and development in people, technology, organizational processes and structure. They identify various "technostructural" (job design, job enlargement, etc.) and "human process" (survey feedback, group development, intervention, etc.) methods that are suggested in the literature and provide the reader with a summary of the empirical knowledge on methods. In addition, they identify two other common themes in their review: the characteristics of successful versus unsuccessful intervention and how multiple interventions are different from single intervention. Alderfer (1977) updates the review of Friedlander and Brown using 104 references. He identifies various new trends emerging in the literature, such as new OD technologies being applied successfully in new settings such as schools, governments, and health organizations, new types of survey techniques, more sophistication in the designs used to evaluate organizational interventions and new instruments designed to capture the changing process.

Pettigrew (op. cit.) classifies the reviews of Kahn (1974), Stephenson (1975) and Strauss (1976) as the "evaluative" approach in the presentation of OD literature because all these three studies are very critical. Pettigrew concludes that Kahn goes straight for "OD's soft underbelly" and Stephenson chastises much OD for being "obsessed with the people variable to the exclusion of structural, environmental, and societal influences, for misrepresenting bureaucratic functioning by concentrating only on its negative connotations and for hypocrisy". Likewise Strauss describes OD as a "fad, its anti-intellectualism, essentially conservative objectives and methods, and tendencies towards manipulation and violations of individual privacy". Strauss uses some of the strongest words which have often been quoted by others in their critique of OD; he is particularly critical about the selling approach of OD:

"For my taste OD has more than its share of evangelic hucksterism. As an academician, I am repelled by the cloying emotionalism and unsustained claims which appear in some of the literature and much of the advertising".

White and Mitchell (1976) completed a review of published research on OD from 1964 to 1974. They classified the research studies into three categories for analysis: (a) the recipient of change (individual, group); (b) the level of expected change (conceptual, structural); and (c) relationships involved in change (interpersonal, intrapersonal). They conclude that most



OD programmes have attempted to change attitudes or behaviour of either the individual or his immediate subgroup, and focus on factors affecting self-relationships or relationship to peers. There is also a concern for evaluating the success of intervention; achievements in change are usually measured in percentages without statistical comparisons.

The themes from the literature on planned change of the early and mid 1970's are well summarised by Goodman and Kurke (op. cit.) and McLean (1978). Goodman and Kurke list several central themes which emerge from their "review of reviews" of OD: methods or techniques of change (including OD methods for non-business organizations); empirical assessment of change; and the role of values in OD interventions. McLean's search for main trends in the field of management of change is undertaken by reviewing twenty-nine research cases and he concludes that the writers have been principally concerned with three issues: the role and characteristic of the consultant, organizational implications of change and a survey of OD techniques and their results.

Goodman and Kurke (op. cit.) review the planned organizational change literature since 1977 and their study identifies five major themes which again indicate the focus and interest in the growth and development of OD. I shall briefly discuss these themes drawing heavily from the work of the authors:

1. Intervention Methods: The intervention method is still the dominant issue in OD and there is much concern about how to categorize methods and discussion of characteristics of methods. There is considerable interest in the examination of particular intervention methods, such as survey feedback, compressed workweek, job redesign, autonomous work groups, etc. There is a movement toward "structural interventions" rather than "process interventions".

2. Large-scale multiple system interventions: A combination of intervention methods is used on a total-system basis, for example in the quality of working life (QWL) programmes. This is a new trend in planned organizational change efforts.

3. Assessment of change: One consequence of large-scale multiple system intervention is the development of evaluation technologies for assessing planned organizational change efforts, for example, models of assessment, analytical procedures, etc.

4. Failures in change: There is much documentation on failures of planned organizational change in which various factors related to failure are discussed. The problems related to maintenance of change is widely covered in this work.

5. Level of theorizing: There are three trends in this area. First, "broad-systems theoretical orientation" which identifies a broad set of variables that should be

considered in change; second, the development of "propositional inventories"; third, the elaboration of a particular change process such as implementation or institutionalization. Goodman and Kurke conclude that there are no clear trends in the theoretical elaboration of change. They are of the opinion that the second and third trends in theorizing can provide concepts through which change may be understood.

In addition to these conceptual developments in OD, models of different phases in a programme of planned change have been developed as guidance to practitioners of change (for example, Lippitt, et al. 1958; Beckhard, 1969; Schein, 1969; French and Bell, 1973). Probably the best known is the one described by Lewin (1947) which prescribed three stages in the process of change: unfreezing, changing, refreezing. These phases and stages of intervention recommend a certain direction for change and have a normative character. However, these prescriptive models neither say anything about how and why change takes place nor about the dynamics behind the process of change. Referring to these models of process of change, McLean (op. cit.) concludes that they are "too rudimentary to serve as guiding theories and too abstract to serve as useful guide for practitioners". Weisbord (1974) finds a "vast gap between OD as researched and written down, and OD as actually practised". Wieland and Ullrich (1976) agree that the "real" processes of change differ very much from the normative models propounded by

the OD literature and the rationality in the models of planned change is rarely, if ever achieved.

The reviews of OD literature and the list of key themes indicate that very little has been written on the process of change in organizations. As a result, critics have pointed out that one of the main shortcomings in existing theories of planned change is the absence of knowledge about the process (dynamics) of change (for example, Berg, op. cit.; Lavoie and Culbert, 1978). Furthermore, the change process remains a largely unexplored area although critics have been pointing out this inadequacy for some time. For example, Friedlander and Brown (op. cit.) state that OD has failed to produce a theory of change which emerges from the change process itself. Alderfer (op. cit.) infers that theorising about organizational change is in a relatively primitive form. Goodman (1982) proposes more research which conceptualizes the change process because this will provide a better understanding of change and improve the chances of developing and testing theories. This list could include more critics but the important conclusion to be drawn is that there has been very little research on change which allows "the change process to reveal itself in any kind of substantially temporal or contextual manner" (Pettigrew, op. cit.). One important explanation for this absence may be the very dominant perspectives and assumptions on which OD has been built which take a very different view of individuals and

organizations and inhibit a processual view and analysis of change. I argue that a processual interpretation of change has not emerged from the OD field because the research and practice of planned change are derived largely from systems theory and humanism. A processual analysis of change will consider the central role of individuals and their collective actions because change cannot be separated from the people who create and manage it. Greenfield (1973) suggests that an organization has its "base" in human action; hence change as an organizational process can be related to human action and interaction. Such a focus does not exist in OD.

The systems theory which is placed within the regulative/objectivist paradigm developed by Burrell and Morgan (1979) has been the main theoretical perspective in the development of planned change. Legge (1984) lists four assumptions of the systems theory: first, some sort of a boundary can be drawn between the organization as a system and its environment; second, the organization interacts with the environment through a series of input, conversion, output and feedback processes; third, the subsystems of the organization contribute to the overall system; and finally, the operation of the organization can be observed in terms of the behaviour of its constituent sub-systems. Therefore, the models of organizational analysis and change originating from these assumptions reflect a dependency on the environment, and organizational change is treated as a "process of

adaptation to the environment and adjustment of sub-systems in order to maintain the organization's dynamic equilibrium". Legge elaborates this point:

"...Organizational analysis, at the macro level, should be centrally concerned with identifying and explaining the key associations which characterize relationships between the organization and its environment.....A tool in operationalizing this basic approach at the micro level, is socio-technical systems analysis. This identifies two subsystems - the "technical" and the "social" as central to the organization's conversion processes and hence in determining organizational processes."

Burrell and Morgan (op. cit.) refer to the "congruency hypothesis" in contingency theory which implies that the elements of different subsystems must be congruent in terms of the characteristics along each of the basic dimensions by which they are defined. This hypothesis spells out implications for theories of organizational change and development, according to Burrell and Morgan:

"for example, (that) attempts to change the operational subsystem through some programme of job redesign has implications for all the other subsystems within the organization. Any analytical framework for studying and prescribing organizational change must therefore pay due adherence to the elements of the model as a whole."

Much of the explanation and understanding of OD is offered in "systems terms" and "for many the whole basis of organization development itself may be conceived of in terms of the individual versus the organization" (Mangham, 1978). Even the quality of working life

movement developed by the "neo-human" relations theory is basically a regulative stance in which the main concern is to make adjustments designed to improve the viability of the technological society. "Although committed to humanitarian concern for the development of human growth and potential through the satisfaction of 'higher-level' psychological needs, their 'selling pitch' is invariably geared to the contributions which this will make to the stability and survival of the system as a whole" (Burrell and Morgan, op. cit.). The predominance of a systems approach to change is well documented in the writings of Margulies and Raia (1972), French and Bell (1973), Lippitt (1971), Mumford, (1976, 1981), Argyris (1971), Blake and Mouton (1969), Beckhard (1969) and many more.

Criticisms of the systems perspective on organizational change have come from theorists who oppose an objective view of social reality where individuals in organizations are treated as if they were "moulded by the norms and values of their culture" Legge (op. cit.). The systems view is essentially "conformist". Child (1972), Silverman (1970), Wood (1979), and Mangham (op. cit.) have criticized the perspective of assuming individuals to be passively reacting to a deterministic organization and environment rather than defining the situations in which they find themselves. Silverman treats man as a central social actor in the analysis of organization and he proposes that social reality should be viewed as being "socially constructed, socially sustained and socially

changed". Mangham proposes that there is the "potential for nonconformity within us all" and relationships can be formed, maintained and dissolved but the "naive" systems men and women are not concerned about these issues; thus, this perspective "tends to cast the individual social actor into the role of passive receiver of forces" and much of the research process which accompanies systems theory "reinforces the basic tenants of systems theory". In the end, the systems perspective ignores individuals and their actions in organizational change and denies the possibility of a processual analysis in which interactions among the individuals can be of central importance.

A review of the humanist influence on OD is presented by Mangham (op. cit.) and I refer to the key points argued by him which seems to relate to and explain the tradition of "aprocessual" analysis in planned change. The central feature of the humanistic approach is the emphasis upon the human person, upon the individual, his experiences and his choices; and subsequently, humanism in OD is more concerned with individual experience, individual choice, and individual acceptance. The individual is at the "centre of events"; the individual is the "creator" rather than the "responder". Mangham summarises the key shortcomings of humanism:



"It has led to a denial of the impact of society upon the individual and a curious kind of anti-intellectualism nourished by an over-emphasis upon feelings, upon phenomenology, and upon the idiosyncratic as the only basis for true knowledge.....Humanists produce little in the way of thought or research into organizations, presumably since many are much more concerned with the development of alternative life-styles rather than with the problems of relations within contemporary organizations.

Because the complete focus is on the individual, there seems to be no consideration for the "dialectical interplay" that can take place with others in organizations and in situations of change. Human action in organizations is a complex interrelationship that is planned, interpreted and performed by a collection of individuals but such a dynamic processual phenomenon is not recognized by humanism and OD practices based on it. Consequently, systems and humanist perspectives do not seem to be concerned with the complex process of change. A conceptual framework and methodology, more suited to a processual analysis are proposed in this study.

### **Organizational Change in State-Owned Enterprises**

This study explores the organizational change process in a state-owned enterprise in Nepal. Much of the literature in OD (as in management) has been predominantly based on the experiences of commercial organizations in developed countries and very few research has been undertaken on state-owned enterprises in less-developed countries (LDC's). Consequently, very

little is known about the management of change in SOE's in LDC's. For instance, Somasundaram (1985) suggests that SOE's live in a world of "abrupt, discontinuous, qualitative change" because individuals who represent the government and stakeholders change frequently and they are able to "change the complexion of their ideology" and "introduce radically different emphasis on policy". But very little is written about such changes. In addition, it would seem unfair to impose management concepts developed in the industrialised countries on the LDC's. Fubura (1984) recounts several studies which show that the models of management and business policies developed and practiced in developed countries have been superimposed on the developing countries' business environment and such models were found to be greatly constrained.

McLean (op. cit.) refers to the "undesirable state of affairs" in the understanding of change management and he recommends various priorities for future research work which includes more investigations into new organizations:

"We need to place a much greater emphasis on studying actual changes in a wide variety of different organizations and from a range of different perspectives. We need to have more 'grounded' data about change, in order to develop precise and valid concepts, that enables more accurate and reliable accounts of change to be made."

There are two principal reasons for undertaking an inquiry into SOE's which I shall discuss in this section. The first concerns the important role of SOE's and their dominance in the economic development of LDC's. Second, the SOE's are "different" from the private sector organizations and their special characteristics affect organizational and management practices. Somasundaram (op. cit.) recounts this difference and indicates the need for the rethinking of organization theory when applied to SOE's:

"Organization theory, misguided as it is in respect of private sector interrelationships, tends to apply private enterprise models for understanding public enterprise organizations. One is in respect of management autonomy of private enterprises and the other, perhaps derived from it, the whole concern for laying down objectives. The legal base for a private enterprise company is that it is an artificial legal person and the management which is vested with the responsibility of its direction is vested with autonomy. As a concept this may be valid but it would require a Diogenic effort to locate where autonomy lies."

Aharoni (1982) states that very little is known about the way SOE's are managed because the majority of studies have been concerned with the economics of state intervention. On the other hand, few authors who have written about the management of SOE's tend to be very critical about poor performance without adequate consideration of the special features which are extremely important contextual influences.

### SOE's in Less-Developed Countries

An enterprise in a LDC can be defined as a SOE (occasionally referred to as public enterprise or parastatal) if:

"(1) the government is the principal stockholder in the enterprise, or otherwise has the ability or the potential to appoint and remove enterprise management, and to exercise control over the broad policies followed by the enterprise; (2) the enterprise is engaged in the production of goods or services for sale to the public or to other enterprises; and (3) as a matter of policy, the revenues of the enterprise are supposed to bear some relation to its costs." (Gillis and Peprah, 1982)

There has been a sudden surge in the growth and expansion of SOE's in LDC's since World War II which Hope (1982) describes as a "great proliferation" that has tended to be more "vigorous" than "orderly" - vigorous because the expansion has not been based on best allocation of resources among the various sectors and on the basis of records of success. The account of growth of SOE's is presented by Gillis and Peprah in terms of external borrowing at the international level. SOE's have swiftly become major debtors in the international capital market with their external debt rising by 350 percent during the period of 1975-1978 alone; loan commitments from the Eurocurrency market reached an estimated U.S. \$12.2 billion in 1978. Similarly, SOE's have grown very important in the national economy of LDC's with remarkable expansion in number and size. They have spread beyond the traditional areas (the so-called 'natural

monopoly' industries such as telecommunications and electricity industry) into all the important economic sectors including manufacturing, construction, agriculture, services, banking, and natural resources. Consequently, SOE's now account for "75 percent of industrial value added in Egypt, at least 60 percent in Bangladesh, one-third in Nepal (emphasis added) and Sri-Lanka, one-fifth in India, one-sixth in Korea" (Gillis and Peprah, op. cit.). Furthermore, many SOE's are the dominant companies in their sectors and in their respective countries.

The motives for the establishment of SOE's in LDC's and the reasons for the government's interventionist objective in an economy are issues which have generated various interpretations. A brief reference to a few of the writings may indicate the reasons for expansion of SOE's and complexities in their creation. Jones and Mason (1982) identify four broad explanations for the establishment of SOE's. The first is "ideological predilection" where there is a prior belief that certain forms of organizations are generally preferable to others, for example, socialism may be more favourable to SOE's. The second is "acquisition or consolidation of political or economic power", that is, ownership and control of economic units are used as instruments for advancing certain interests and frustrating others by the various interest groups. The third is "historical heritage and inertia" as in the wake of colonial exodus

when new governments often have little short-term alternative but to take over substantial responsibilities in the industrial base. The fourth is "pragmatic response to economic problems" where governments tend to have a variety of centralized and decentralized institutional arrangements to choose from in their pursuit of economic goals; and the mixed economies of the LDC's generally rely heavily on "pragmatic consideration". Pragmatic considerations have given rise to SOE's either because "an organized private sector does not exist at all or because the private sector does not have the inclination or the resources to enter into high-risk, long gestation and low productivity industries" (Fernandes, 1985a).

The perspective and analyses presented by other authors writing on the causation of SOE's in LDC's tend to fall within the four categories discussed above. Ahmad (1982) and Sobhan and Ahmad (1980), from their study of SOE's in Bangladesh, argue that decisions on SOE's are made by individuals representing particular class interests and having broader political objectives. Evans' (1979) study of Brazilian SOE's reveal that they support the interests of the private capitalists. The World Bank study of SOE's in developing economies concludes that their number appears to be on the rise in spite of the continuing debate about their operational inefficiency; Shirley (1983) presents the many reasons cited by governments of LDC's for creating SOE's:

"Some see state ownership as a way to correct perceived market failures, including a small, highly risk-averse private sector. Others believe that SOE's may raise revenues, increase employment, promote regional development, redistribute income, and encourage (or discourage) a particular national group. SOE's are also perceived as a way to achieve independence from foreign companies and to direct the course of development by controlling key sectors. Some SOE's are created as a channel for development aid. As for the reasons given for embodying an activity in a public corporation rather than a government department, this arrangement is said to increase flexibility through decentralization, escape the inefficiency or corruption of central bureaucracies, attract different personnel, and apply different incentives outside the civil service pay limits."

#### SOE's as "Different" Organizations

SOE's in LDC's share some common features which make them sufficiently different from private sector enterprises. These differences have direct implications on the management and operation of the enterprise (including the process of change). These characteristics become the context and the framework within which organizational change takes place and individuals perform and act.

SOE's are frequently described as "hybrid" organizations (Jones, 1982). As an "enterprise" the SOE sells its output and performs functions that are the concern of management specialists, such as production, finance, and marketing. As a "public" organization, it is owned and controlled by the government or its agents and it is subject to direct and indirect pressures from

bureaucrats, politicians, and the public at large. Vratusa (1985), the president of the International Centre for Public Enterprises in developing countries, acknowledges that the problem of SOE's is very complex because essentially it represents "a basic cell of production relations" but, on the other hand, the government has been entrusted by legislation with "the responsibility of coordinating, monitoring and controlling public enterprises or other institutions of a similar nature". Fernandes (1985b) mentions that there are inherent problems in this interface relationship between SOE's and governments:

"The enterprise itself is a recognizable corporate entity with a cohesive thought process. This cannot be said of the concept of 'Government'. The belief that Government is a single entity which expresses its views and makes its policies in a highly cohesive and coordinated manner is valid only in theory. In actual practice, modern Governments are highly complex and even fragmented organisms consisting of a large number of agencies representing and acting in the public interest. Each of these agencies has an element of inherent power, an area of jurisdiction and has consequently an influence over a publicly-owned enterprise. It could be presumed that the various organs and agencies of Government work within an agreed framework in terms of practical politics."

Aharoni (op. cit.) argues that it is a mistake to view the government as the shareholding, goal-setting principal and the enterprise as the executing agent in the case of SOE's. Rather, the public at large is the principal on whose behalf a variety of agents act, including various political parties, government ministers, civil servants and other public enterprises.



In this situation, each agent's view of the public interest is naturally influenced by its own self and group interests. In addition, managers of SOE's often try "to influence the process of goal specifications, resist the imposition of certain goals in many different ways, and claim the right to participate in the formulation of goals". In the end, "the actual outcome and degree of discretion managers enjoy in their operations seem to be the result of a fight for power among the various agents of the state".

The existence of plurality of agents is closely related to the issue of "multi-dimensionality" of goals and objectives in SOE's. There is strong expectation that SOE's should operate "as sound business firms generating surpluses and providing resources to the public exchequer" but at the same time, there is "an equal desire that public enterprises should function as instruments of national development and social policy" (ICPE, 1985). The problem of the multiple objectives policy is that it calls upon the SOE's to pursue a mixture of commercial and non-commercial objectives at the same time. In conditions of such dual and conflicting corporate and social objectives, the measurement of performance of SOE's become very complex, according to Suarez (1985):

"The fact that public enterprises have dual objectives makes the question of performance more complex, since they are not only economic entities responding to consumer demands in the market, but instruments of public policy responding to multiple publics. These multiple publics have an effect on the behaviour of the enterprise and tend to make its performance more intricate and often difficult to achieve on conventional grounds."

Jones (op. cit.) looks into the plethora of objectives imposed on the SOE's and argues that this is the equivalent of having "no objectives" and "management is all often left free to pursue its own interests or a constantly shifting, incoherent mix".

The lack of agreement on goals raises a long-standing dilemma about autonomy versus control or autonomy versus accountability in SOE's. If autonomy is essential for the successful performance of a SOE's as an enterprise, how can this be reconciled with the control by the government as the enterprises are accountable to it? If more autonomy is given to the operating management, the less control for the government and vice versa. Hope (op. cit.) states that autonomy and control are "inversely related" or in "perennial conflict" and, therefore, the autonomy of a SOE is in "inverse ratio to the dimensions of depth of control".

### SOE's in Nepal

The political philosophy governing the establishment of SOE's in Nepal has been frequently described as

"pragmatic" one (CCC, 1980). A review of the SOE history seems to suggest that the desire for more rapid development, the desire for self-sufficiency, the heavy aid-dependency syndrome of the government and the theoretical virtuosity of SOE's as an instrument of implementing national plans have served as powerful objectives for their establishment. During the first five year plan (1956-61), there were only eight SOE's and the total increased to sixty-one by the fourth year plan (1970-75). Of these, forty-four were engaged in manufacturing and wholesale trade with commercial orientation and the remaining were established as utilities, financial institutions, industrial estates, etc. covering almost all the important sectors of the economy .

A research study of SOE's in Nepal presents a critical account of their growth:

"The establishment of SOE's in Nepal cannot but impress upon one that they were created in haste. Right from their birth, they have very little chance of healthy growth as goals are not clearly stipulated, ministers who were actively in favour of them are faced with a very short tenure of office, financial capitalization is not properly planned, management is largely inexperienced and evaluation criteria are never known." (PPEN, 1980)

In the mid-eighties, SOE's still had a "vital role to play in the economic development of the country" because they were expected to contribute towards the fulfilment of "people's demand for consumer goods and

supply of construction and development materials" (NPC, 1985). Their contribution to the national economy was significant because:

"around 17 percent of HMG's total development budget was involved with loans, equities and subsidies to public enterprises. Similarly, about 20 percent of HMG revenue originated in public enterprises by way of indirect taxes, repayment of loans, and interest, income taxes and dividends. Around 50,000 must be employed in public enterprises which represents about 40 percent of those employed in the organized sector." (Rana, 1987).

The total number of SOE's remained almost the same during the sixth and seventh plan period (during the eighties) because the government adopted a "restraining policy". It was concerned about the poor performance of the majority of SOE's and the huge financial liability incurred by them. The government's assessment of these enterprises is well stated in the plan document published by the NPC (op. cit.):

"With rising government spending for the enterprises and diminishing returns from them, the government owned corporations have become a mere liability to HMG. Their contribution to the GDP has not increased during the first four years of the sixth plan. However, corporations have proved to be a major source of employment..... The financial condition of these enterprises is also critical. This is mainly due to the failure in determining clear and target oriented objectives, inability to make the management solely responsible, inability to dissolve or transfer unnecessary corporations and the failure in making the management shoulder economic obligations."

Similarly, the PPEN research study, mentioned above, takes a very critical view of SOE's in Nepal and blames

both the government and the management of the concerned enterprises:

"There is a high degree of adhocism in the establishment and management of SOE's. In the absence of a clear-cut rationale for the establishment of SOE's and the roles they are expected to play, opinions in government about the role of SOE's and their management suffer a great deal of inconsistency....For instance, even when public sector management could be greatly improved through a mere change in top management, HMG/Nepal is apathetic and would rather let the SOE suffer than take the necessary corrective measures.....The working and performance of SOE's fall far behind their stated objectives but nobody seems to be bothered. There is a high degree of allocative inefficiency in the establishment of SOE's and an equally virulent inefficiency in their operation."

This short introduction to SOE's in Nepal is presented here to reflect the complexities in their management and performance. It may be stated that in many respects the problems faced by them are similar to those experienced by other SOE's in LDC's, that is, many of the problems seem to arise from the special nature of SOE's discussed earlier. This study does not attempt to suggest prescriptive remedies to improve the situation but it puts into perspective the general situation of SOE's in Nepal within which planned change has to be explored and understood.

To summarise, then, this inquiry will attempt to explore the process of organizational change in SOE's. A processual analysis of change is generally missing in the literature on organizational change and development; and

organizational studies of SOE's in LDC's are very few. The actions, role and influence of individuals will be paid particular attention to because an analysis of the organizational process can answer questions related to the how and why of change. The next chapter will discuss the methodology that is appropriate for such an analysis.

## **CHAPTER TWO**

### **METHODOLOGY**

This chapter will explain my choice of methodology and its implementation to achieve the goals set out for my research. The discussion will encompass the principles, processes and procedures by which the research problems were approached and answers sought. It will be related to the wider scheme of analysis which suggests that the various approaches to social sciences are based on interrelated sets of assumptions regarding ontology and human nature. I propose a qualitative research methodology, in line with the phenomenological perspective, that is, understanding human behaviour from the actor's own frame of reference. Lastly, I move on to describe the procedures and experiences in conducting this research and elaborate on the choice of a single case study, data collection and processing, and interpretation.

#### **Methodological Assumptions and Considerations**

My choice of method could not be related to any prevailing methodological developments in the area of planned organizational change and development (OD)

because the majority of research has been concerned with different issues, themes and aspects of change (as reviewed in chapter one). Furthermore, since the practice of organization development and the dominant modes of research are derived largely from systems theory and humanism, this has led to a strong reliance upon a positivistic approach. Mangham (1978) explains that research in OD has been narrowly limited to: "(1) little more than the forcing of new data into pre-established categories or existing theoretical frameworks; (2) abstract rambling about concepts such as values divorced from any empirical referent, or (3) detailed accounts of particular interventions with little or no attempts at generalizations". He recommends qualitative research for an understanding of human actions and processes within organizations in place of positivism:

"...the scientific influence has led to an emphasis upon system and upon positivism, and creates the idea that the scientist approaches organizational change and development with established concepts and models and is primarily, if not exclusively, concerned with deriving data to enrich his particular framework. Such data tend to be centred around things and abstracts rather than individuals and their experiences....organizations are to be understood in terms of the individuals who participate in them and individuals are to be understood in terms of the organizations of which they are members. Such 'understanding' can only arise from an intimate familiarity with the processes occurring within organizations, a familiarity which is at the heart of qualitative research which aims to go beyond the ideographic without doing violence to the complexity of its subject matter. Familiarity, it may safely be said, breeds concept." (Mangham, op. cit.)



With reference to research studies on organization development and change, McLean (1978) highlights the use of "traditional" methods which "alienate organizational members by casting them into the role of 'subject' and by imposing onto them measures which are based on constructs which have meaning for the researcher but little or none for the subject". He expresses dissatisfaction with such methods because they leave a wide gap between the theory and practice of change management and recommends that further research should examine more closely the "natural" process of change in organization; a phenomenological method is suggested.

Beer and Walton (1987) review seven major research articles on OD and organizational change literature which try to assess the relative effectiveness of typical interventions in a wide range of areas such as team building, laboratory training, survey feedback, techno-structural interventions, and process consultations. They evaluate the methods used by these researchers and find that "investigators have felt the needs for, and have begun to use quantitative data, sophisticated research designs, and statistical procedures aimed at accurate measurement of change". Beer and Walton are critical of the positivistic assumptions adopted by these researchers and their search for "perfect" quantitative methodology in OD research. They identify several problems in pursuing such a method - first, the research aims to isolate causation because it tries to identify the result

of a single intervention and overlooks the "systemic" nature of organizations. Second, there is imprecision in the in-depth description of the intervention because the environmental context is overlooked. Third, the more and more complex statistical techniques and quasi-experimental designs are used to achieve more precision and tighter scientific proof, the "social construction" of knowledge in the social sciences is neglected. The authors conclude that OD should attempt to build a different model of knowledge rather than attempt to find the perfect quantitative method and they propose action research traditions with full participation of the client in the research.

Berg (1979) states that the dominant philosophy in OD has been contributed by the functional paradigm and hence research has been dominated by traditional science methodology which is of little use in the study of the process of change. No methodology has been developed which allows the change process to reveal itself. Pettigrew (1985) points out that the entire literature on organizational change and development is wanting in a number of crucial respects, amongst which is the "extent to which the theories and empirical findings in this area have been circumscribed by the limited frames of reference and methodologies and approaches used to study change".

The methodologies used in studies of organizational change are not suitable for my exploration into the process of change and the role and actions of key individuals. Close, continuous and intensive interaction with key individuals and actors in the social setting over a period of time seems to offer a better understanding of the organizational process and the human actions that constituted it. A qualitative research methodology seems more appropriate for my inquiry. Burrell and Morgan (1979) state that "all theories of organization are based upon a philosophy of science and a theory of society", and they conceptualize social science in terms of four sets of assumptions related to ontology, human nature, epistemology and methodology. An investigation into a subject and the methodology used is guided by explicit or implicit assumptions about the nature of the social world, that is, different ontologies, epistemologies, and models of human nature are likely to incline the social scientists toward different methodologies. A subjective - objective dimension is proposed for the analysis of these four variables and each can be expressed in terms of two extreme opposing points in a continuum, for example, the ideographic and nomothetic methodologies as the two opposing extremes. The ideographic approach believes that the social world can be understood only by obtaining first hand knowledge of the subject under investigation, and their analyses emphasise the importance of subjective account that is generated by "getting inside" situations

and involving oneself in everyday life. On the other hand, the nomothetic approach regards the social world as a hard, external, objective reality and recommends that research should focus upon an analysis of relationship and regularities between various elements on the basis of "systematic protocol and techniques". With reference to the large amount of empirical research carried out in organization theory that is based on highly objectivist assumptions, Burrell and Morgan (op. cit.) point out that the consideration of methodology has dominated other assumptions on ontology, epistemology and human nature; they question the contribution of the "dominant" methods taken from the natural sciences in much of the organizational research. Their concern about relating method to the nature of phenomenon has been one of the main considerations in my choice of methodology in this research:

"The problem of developing *methods* appropriate to the nature of the phenomenon to be studied remains one of the most pressing issues within the whole realm of social science research."

Morgan and Smircich (1980) take their lead from this scheme of analysis and develop the "core assumptions" that underlie the arguments in favour of different methods in social science research. They state that qualitative research is an approach rather than a particular set of techniques and its appropriateness for certain research is derived from the nature of the phenomenon to be studied. More importantly, they argue

that assumptions about ontology and human nature of the subject will define epistemological positions:

"The different assumptions regarding ontology and human nature pose interesting problems of epistemology.....As we pass from assumption to assumption along the subjective - objective continuum, the nature of what constitutes adequate knowledge changes. To take the extremes of the continuum by way of illustration, an objectivist view of the social world as a concrete structure encourages an epistemological stance that emphasizes the importance of studying the nature of relationship among the elements constituting that structure. Knowledge of the social world from this point of view implies a need to understand and map out the social structure, and gives rise to the epistemology of positivism.....At the other end of the continuum, the highly subjectivist view of reality as a projection of individual imagination would dispute the positivist grounds of knowledge in favour of an epistemology that emphasizes the importance of understanding the processes through which human beings concretize their relationship to their world. This phenomenologically oriented perspective challenges the idea that there can be any form of "objective" knowledge that can be specified and transmitted in a tangible form...."

A preference for qualitative research arises as one departs from the objective view of the social sciences and moves toward the subjective end. Once the ontological assumptions move away from the view of the social world being external to individual cognition and made up of hard, tangible and immutable structures, and human beings being determined by situations and the environment, the methodological approach to the study of social sciences also shifts from the dominant "nomothetic" approach which is common in natural science. One should be reminded that the subjective-objective continuum provides a "rough typology" illustrating the various views that different

social scientists hold about human beings and their world. Morgan and Smircich warn that the main objective of the scheme is not to determine who advocates what positions but to use it as "a useful way of thinking about the kind of assumptions that underline continuing research and debate within the social sciences, and the thorny problems regarding epistemological and methodological adequacy".

When I decided on an in-depth study into the fairly new area of the change process in SOE's, I was prepared for "no clear expectation of what to expect" as described by Harre and Secord (1972) in the context of exploratory research. I entered the field of organizational analysis with an open mind anticipating and accepting organizations as complex, ambiguous and paradoxical. I wanted to understand the situation in its "natural" form and let it reveal itself rather than impose my point of view. Morgan (1986) proposes two essential steps in organizational analysis which seem a reasonable and sound way of conducting exploratory research: diagnostic reading and critical evaluation. The diagnosis involves studying the situation being investigated by using different metaphors to identify the key features and character of the situation. It allows the "luxury of being able to jump from one position to another"; a description of what is seen, understood and experienced; and most important of all, it enables a creative interpretation of the situation. The diagnosis stage is

followed by evaluation and identification of insights which is useful in developing a most effective "story line". The metaphorical framework provides the background within which the story is developed, and the story is a mode for understanding the situation.

Blumer (1969) proposes a two-stage model of inquiry into the empirical world which shows similarities to the art of organizational analysis discussed above. He propounds a "naturalistic" examination for all social inquiry and the key activities are "exploration" and "inspection". Exploration is described as a flexible procedure in which the scholar shifts from one to another line of inquiry, adopts new points of observation, moves in new directions, and changes his recognition of what constitutes relevant data as he acquires more information and better understanding. This stage of the inquiry has two objectives according to Blumer:

"On the one hand, it is the way by which a research scholar can form a close and comprehensive acquaintance with a sphere of social life that is unfamiliar and hence unknown to him. On the other hand, it is the means of developing and sharpening his inquiry so that his problems, his directions of inquiry, data, analytical relations and interpretations arise out of and remain grounded in the empirical life under study."

The inspection is similar to the critical evaluation suggested by Morgan and involves an intensive examination of the contents of the analytical element and the nature of the relationship between such elements. It is an analytical stage which "consists of examining the given

analytical element by approaching it in a variety of different ways, viewing it from different angles, asking many different questions of it, and returning to its scrutiny from the stand-point of such questions".

The advantage of using a diagnostic reading in my research was that I could undertake an analysis of the execution of the change programmes and let the "real" situation reveal cues and insights that corresponded to a frame of reference for analysis. This called for careful probing, reading, seeking answers to doubts and confusion, and gradually moving towards an understanding of the situation. At this stage, I specified an appropriate metaphor that best described and matched the data of the situation under study. The metaphor was not imposed upon the data to advance my research preference or my view of the world but the analysis clearly revealed that the change process was best captured in a "political model", that is, a political analysis of change. I was able to comprehend and convey the story line on the process of change by proceeding with the political framework; and, at the same time, I was constantly on the look-out for "unforeseen and serendipitous" (Shalin, 1986) discovery of new categories from the data.

The application of metaphors to understand and explain the social world is a common and an on-going tradition (Brown, 1977; Morgan, 1980; Schon, 1963). Morgan and Smircich (op. cit.) assert that a strong case



can be made for the view that science of all kinds, whether nominalist or realist in its basic orientation, is primarily metaphorical. Morgan's (1986) acclaimed book discusses the variety of metaphors that have been applied to build theory and explain organizational life; he proposes the use of metaphors for organizational analysis as well:

"Metaphor is often regarded as a device for embellishing discourse, but its significance is much greater than this. For the use of metaphors implies a way of *thinking* and way of *seeing* that pervade how we understand our world generally.....By using different metaphors to understand the complex and paradoxical character of organizational life, we are able to manage and design organizations in ways that we may not have thought possible before."

The use of metaphors reveals the important properties of organizations and provides a basis for exploration according to Mangham (1979):

"Without recourse to metaphor it would probably be extremely difficult to comment upon organizational life at all since metaphor is, at its simplest, a way of proceeding from a known to an unknown. It is a method by which the identifying characteristics of one thing are transferred almost by a flood of intuition, a shaft of insight, to some other thing which up until that point has been opaque, unilluminated or unfathomable."

Similarly, Miles and Huberman (1984) recommend the use of metaphors for generating meanings from qualitative data:

"(Metaphors) are *data-reducing devices*, taking several particulars and making a single generality of them.....are also *pattern-making devices*.....are also excellent *decentering devices*.....finally metaphors are ways of *connecting* findings to theory...The metaphor is halfway from the empirical facts to the conceptual *significance* of those facts; it gets the analyst, as it were, up and over the

particulars en route to the basic social processes that give meaning to those particulars. For instance, Glaser (1978) advises the field researcher struggling to make sense of social phenomena to attach metaphorical gerunds to them...."

One also needs to be aware that a metaphor always produces a one-sided insight of the subject under study because it highlights certain interpretations and forces other to the background. Mangham (op. cit.) warns that the use of metaphors equally diverts attention from other aspects of existence because "any way of seeing is simultaneously a way of not seeing: all metaphors are at once directive and misleading." Given this nature of metaphors, I faced the challenge of capturing the comprehensive reality of the change process in reorganization, that is, an understanding of the complex and paradoxical features which exist together in a social world. The political model was my preferred choice because the data highlighted the political dynamics of change and I also followed Pfeffer's (1981) suggestion that it is important for those analysing organizations to be able to figure out the kind of analytical framework that can be most usefully employed to diagnose the particular organization of interest. I assumed that a political analysis could capture the change process in a coherent and consistent manner and paradoxes could be explained in relation to the main framework.

The political metaphor derived from the analysis of data implies that I uphold certain ontological and human

nature assumptions because all metaphors already include such assumptions. Morgan and Smircich (op. cit.) state that the choice of a metaphor has "implicit commitment to an epistemological position emphasizing particular kinds and forms of knowledge". The key underlying assumption of the political metaphor is that it treats man as a social actor who not only responds to others but can make indications and interpret their actions; therefore, it opposes the view that human beings are mechanistic and purely determined by the situations encountered in the social world. Similarly, the social world is created and upheld by actions and activities of people. The symbolic interactionism perspective is most hospitable to a political analysis of organizations and will be discussed in chapter five.

### **Choice of Qualitative Research**

The assumptions on human nature and social reality indicate an epistemological position that determines the grounds of knowledge for investigating the process of change. Since the political perspective requires an understanding of the dominant roles played by key individuals, change is explored in terms of actions and interactions of individuals in a social setting. The social world is treated as "relativistic" and to be understood from the point of view of individuals who are directly involved in activities related to the change.

This is a typical stance taken by the anti-positivists who claim that one can only understand human activities by occupying the frame of reference of the active participants. The implication of this approach for methodology is to let one's subject unfold its nature and characteristic in the process of investigation; hence the researcher can obtain knowledge by getting close to the subject under study. The anti-positivists reject the "observer" role for understanding human action which is a typical approach of the positivist methodology. Positivism is based upon the traditional approach that dominate the natural sciences and seeks "to explain and predict what happens in the social world by searching for regularities and causal relationship between its constituent elements" (Burrell and Morgan, op. cit.). The pioneering theorists such as Auguste Comte' and Emile Durkhime assume that social facts are "things" which exercise external and coercive influence on human behaviour and the positivist's main interest is to seek these facts as "causes" of social phenomena. The subjective state of individuals is not important. Positivists share the view that the social and natural world "conform to certain fixed and unalterable laws in an endless chain of causation" (Hughes, 1976). Labowitz and Hagedorn (1971) state that "the major goal of scientific research is to establish causal laws that enable us to predict and explain scientific phenomena. At a minimum, to establish these laws a science must have reliable information or facts". Positivist methodology is

concerned with the construction of scientific tests which produce quantitative data and establish a relationship between defined variables. Surveys, questionnaires, inventories, personality tests, and standardised research instruments which use quantitative techniques for analysis of data are popular with the positivists.

There are many critics of positivism and quantitative methodology in the literature on research methodology (for example, Halfpenny, 1982; Harre, 1981; Giddens, 1976; Lally, 1976; Hesse, 1980; Cronbach, 1982; Lincoln and Guba, 1985). A few of the critiques tend to disparage the word "positivism" and undermine the useful contributions previously made, such as the explications offered by functional theories on formal organization, the sociology of organization, and the behaviour of individuals in organizations. I shall focus my critique of the positivist tradition to several points that relate to this exploratory research on organizational change.

Walker (1985) considers that positivism is inadequate in account of two themes:

"(a) that positivist social science in its concern with scientific procedures, hypothesis testing, measurement, statistical significance and the like has become sterile and introspective; and (b) that fundamental differences between the natural and social worlds rule out the possibility of using the techniques of natural science to study social phenomena."

Walker states that there are real problems in applying the measurement theory of the "causal laws" paradigm to social sciences. He agrees with Brenner (1981) who criticizes the positivist paradigm as "under-identified, as far as methodology is concerned, as it does not consider, nor elaborate, except in terms of measurement error...., the social processes that constitute the practices of method". He identifies several problems, a few of which are relevant: first, the theoretical concepts are frequently insufficiently precise to suggest an appropriate measurement; second, the control and simplification necessary for measurement may lead one to ignore the fundamental complexity of the social phenomena; third, the objectivity and consistency necessary for the development of classification systems is difficult to achieve because the decision procedures are subjective and variable with actors; lastly, the data collection procedure itself is necessarily reactive.

A familiar argument amongst the anti-positivists is the inappropriateness of methods developed in the natural sciences for the study of subjects in social sciences. The two worlds are viewed as fundamentally different and, furthermore, an understanding of human behaviour needs to be related to people's perception. The researcher as a social being should "get inside" the objects of his study so as to acquire adequate description of the social world. Schwartz and Jacobs (1979) state that an appreciation of meanings conferred upon situation by

individuals is essential and this requires the researcher "to interpret what is going on from the social context in which these events occur". Walker (op. cit.) makes pertinent comments about the subjective element in qualitative research which is absent in quantitative methods:

"What the researcher learns from his research depends on the quality of his interaction with his subjects, his ability to interpret what he observes and is told, and his own ethical and social values.....Consequently there can be no absolute objectivity but only agreements on truth and validity shared by people who hold the same meaning system, most notably by researchers of the same methodological persuasion."

The positivist model of social science demands almost "pure" objectivity in generating knowledge but Siedman (1977) points out the subjectivity element in their method as well:

".....few have questioned the inherent subjectivity of quantification which requires 'selection' of parameters and baseline data, the interpretation of findings, and the selection of facts and evidence. There is much to be gained by destroying the myth of objectivity since subjectivity is always intricately involved - but disallowed."

Lincoln and Guba (op. cit.) disapprove positivism on the grounds that it embraces very "unacceptable" assumptions about human beings which make it inadequate for the study of social phenomena. Positivism assumes "determinism" and "reductionism" which have implications for restrictions on human free will and human beings are subject to a single set of laws respectively (conceptual

assumptions which contradict with the political metaphor). Positivism has produced research with human respondents that "ignores their humanness, a fact that has not only ethical but also validity problems". They describe this kind of research as "exogenous" - that is, "research in which all aspects of the research, from problem definition through instrumentation, data collection and analysis, and the use of findings, have been researcher-determined"; and "etic" - that is, "research carried out with an outside perspective" (to the virtual exclusion of an inside perspective).

The positivist method has dominated research inquiry in social and psychological sciences and many researchers "turn away from direct examination of the empirical social world and give preference, instead, to theoretical schemes, to preconceived models, to arrays of vague concepts, to sophisticated techniques of research, and to an almost slavish adherence to what passes as the proper protocol of research inquiry" (Blumer, op. cit.). The "cardinal" principle of empirical science for Blumer is that the researcher should respect the "obdurate character" of the empirical world and "reality" can only be identified by close examination of the world. In his words:



"The task of scientific study is to lift the veils that cover the area of group life that one proposes to study. The veils are not lifted by substituting, in whatever degree, performed images for firsthand knowledge. The veils are lifted by getting close to the area and by getting deep into it through careful study. Schemes of methodology that do not encourage or allow this betray the cardinal principle of respecting the nature of one's empirical world."

Blumer understandably recommends symbolic interactionism as a perspective for empirical science - an approach designed to yield verifiable knowledge of human group life and human conduct. He suggests a rigorous "naturalistic" examination of the empirical world that involves "exploration" and "inspection" modes of inquiry (discussed earlier), and qualifies as qualitative methodology.

Mangham (1978) criticizes the research methodology of positivism with its emphasis upon heavy reliance on "statistical inference about concepts which have an indefinite relation to the empirical world". He suggests that an empirical science should be "constructed out of the interplay of data and speculation that generates concepts and at the same time grounds them in context of empirical materials"; and his suggested approach is:

"to be familiar with one's subject matter - to have a detailed and dense awareness of a particular set of social actors over a period of time and to seek to understand how it is that they go about defining and acting in their particular social world; to participate with them while observing or, as a second best, to spend a considerable amount of time talking to them in a relatively unstructured form about their perceptions and their actions."

Just as there is no single method suited for all kinds of research, some methods may be more appropriate for certain research, and grounds of knowledge. My choice of method was qualitative research because I wanted to capture the richness of the social process and actions, interactions among actors, and meanings from actor's frame of reference. I decided to apply qualitative method in order to understand the process of change which emerged as a political process. Thus, I wanted to identify actors who were closely related to the change programme, actions and interactions among them which could be interpreted as political, how actors negotiated the changes, the negotiation process and power relationships, etc. In the entire change process, the central position was taken by several key individuals and it was essential to try to understand their actions and behaviour. I had to get inside their world to see it from their point of view. I had to interact with them to understand their interpretation of various elements of the change. Furthermore, the multiplicity of actors in the social settings indicated that I might not only have to interpret meanings expressed by them but also understand the reasons for differences and their implication on the events. The difficulties associated with these tasks were aggravated by the fact that I was trying to study the political dimension of the change process and I had to be extremely sensitive and cautious about questions concerning interests, conflicts, negotiations, and power. The objectives and purpose of my

research convinced me that a qualitative method was appropriate to understand the experiences of actors as they lived and participated in the change process. Quantitative techniques would hardly have been able to meet these goals as stated by Blumer (op. cit.):

"Actor's definitions, cannot be obtained from questionnaires; no quantitative measures can adequately represent meanings; and no statistical analysis can explain them."

My role as a researcher involved me closely in the lives of the people studied. This is one of the key features of qualitative research that has been supported by writers adopting this paradigm. Bogdan and Taylor (1975) favour qualitative methods because they allow the researcher to get to know the researched people personally, to see them develop their definition of the world and to experience what they experience in their daily struggles with their society. Cottle (1972) states that the methods of qualitative research which involves visiting people, listening, speaking, etc. means that "one's own feelings are evoked by the language, history and account of this other person". Blumer (op. cit.) supports a collaborative research approach to capture accurately the subject's frame of reference:

"To try to catch the interpretive process by remaining aloof as a so-called "objective" observer and refusing to take the role of the acting unit is to risk the worst kind of subjectivism - the objective observer is likely to fill in the process of interpretation with his own surmises in place of catching the process as it occurs in the experience of the acting unit which uses it."

Lincoln and Guba (op. cit.) emphasise that one of the axioms, i.e. a "basic belief", of the naturalistic paradigm is that the "inquirer and the object of inquiry interact to influence one another: knower and known are inseparable". As early as 1929, Dewey stated that "knowing is not the act of an outside spectator but of a participant inside the natural and social scene".

Lastly, the application of qualitative method in my exploratory research allowed an understanding of social process "grounded" on the data and experiences of the real world. Grounded theory, a term coined by Glaser and Strauss (1967), is inferred from data and is a principal contribution of qualitative research:

"Generating a theory from data means that most hypothesis and concepts not only come from the data but are systematically worked out in relation to the data during the course of the research."

The formulation of theory "grounded" on data has been recommended by other authors who have generally conducted research from the qualitative paradigm (Lincoln and Guba, op. cit.). Elden (1981) uses the term "local theory" which is generated by participatory research with employees. Diesing (1972) describes how patterns of model and themes emerge from a network. Kidder (1981) defines a process called "negative case analysis" that basically consists of a "process of revising hypotheses with hindsight" and can be seen as another way of conceptualizing the development of grounded theory.

McLean et al. (1982) state that an investigation is "grounded" when it is comprehensible to all the parties in the collaborative task and not merely to the framework of the researcher; and satisfactory validation of the research can only come from such shared understanding.

### **The Case Study Method**

Case study research can contribute to our knowledge of the organizational process in a unique way and is more acceptable in qualitative research; hence I have used it in this investigation. However, one of the striking features of the case study method in social science research is its controversial position. Both Berg (1979) and Yin (1984) refer to the "paradox" in the use of case studies for organizational research - that is, it continues to be used extensively, but at the same time, few other methods seem to have been so heavily criticised. Furthermore, there seems to be little agreement on the definition of the term itself. A very narrow meaning is attached to the case study method by a few who consider it as an initial stage or an exploratory stage in the overall research strategy. Berg (op. cit.) refers to the works of Hagg and Hedlund (1978) and Andersson (1979) who both agree that there is no clear-cut understanding of what is meant by a case method. Denny (1978) interprets case study as "an intensive or complete examination of a facet, an issue, or perhaps the

events of a geographic setting over time". Lincoln and Guba (1981) explain case study as "a snapshot of reality", a "slice of life" or "an episode"; and "an intensive or complete examination of a facet, an issue or perhaps the events of a geographic setting overtime" (Lincoln and Guba, 1985). Yin (1981a, 1981b) asserts that all the critical "technical" features of a case study are accounted for in his definition:

"A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used."

The case study method has been widely used in the study of the management of organizational change. McLean (1978) spells out the reasons for this popularity:

"As a technique for describing the complexities of change, it allows the practitioner much freedom to explore the intricacies of a particular episode. Potentially the case study is a rich source of data on which researchers may base comparisons of a number of changes, enabling them to make observations and draw conclusions at a higher level of generality. Moreover, ideally case studies provide an opportunity for an observer to see the complexities of a situation through the eyes of people in that situation and to learn something of the reasoning underlying their actions."

Likewise, McClintock, Brannon and Maynard-Moody (1979) state the objectives of using the case study:

"The goals of the qualitative case study are: (1) to capture the frame of reference and definition of a situation of a given informant or participant and thus to avoid instrumentation artifacts of standardized measurement procedures; (2) to permit

detail examination of organization processes; (3) and to elucidate those factors peculiar to the case that may allow greater understanding of causality."

My decision to use the case study method can be justified because it seemed to contribute to the goals of my research. The choice involved various important considerations:

First, as stated earlier, I was conducting inquiry into the process of organizational change in government-owned enterprises and I was seeking answers to the how and why of organizational change, and finding out what actually happens during change. This was an poorly researched area and hence there were no guiding theories and methods. The case study method was particularly suited to exploratory research because it took into account the complexities of the real world. The case study has a degree of freedom because each item of information provides another point of leverage from which to test interpretations (Campbell and Stanley, 1966). Berg (op. cit.) mentions that the case study allows a large number of variables to be studied and often these variables mutually influence and shape each other. Similarly Lincoln and Guba (1985) support the case study method because it is "more adapted to a description of the multiple realities encountered at any given site".

Second, I was conducting an investigation into a very complex social phenomenon, the politics of organizational change, and I wanted to learn about the meaningful

characteristics of real-life events. All forms of political behaviour, activities and negotiations are usually sensitive issues and closely guarded aspects of human life which may become accessible for study through the case study method as it allows intensive research of the social process. The case study as a research method seemed appropriate for the study of the change process because of the "three conditions" of its use identified by Yin (1984). It provided answers to exploratory research questions, that is, the "how" and "why" of change because "such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence". It required no control or manipulation of the behaviour of the subjects. Lastly, it involved an examination of contemporary events and the use of various sources of evidence such as documents, artifacts, interviews and observation.

Third, the case method allowed me close access to the social setting and data was collected through interactions with members of this setting in accordance with my epistemological assumptions; only the natural social setting was able to provide insight into meanings shared by individuals who were part of the context. The case study method facilitates the collection of "illustrative data" (Strauss, 1987) which conveys the view point of key individuals. This was particularly pertinent to my study because I could probe into the minds and memory of people regarding the process of



change. Lincoln and Guba (op. cit.) state that the case report is ideal for providing "thick description", in order "to make clear the complexities of the context and the ways these interact to form what ever it is that the case report portrays".

### **Choice of the NEA and Access**

Bogdan and Taylor (1975) state that "any setting that meets the substantive and theoretical interests of the researcher and that is open for study might be chosen as a research site". The choice of organization was mainly guided by a search for a major planned organizational change in a state enterprise where I could carry out an inquiry. I was keen to "explore and seek" answers to substantive questions on the process of change and my prime concern was choosing a setting that had undertaken a major planned change programme. Another important consideration in the selection of the setting was the warning given by Bogdan and Taylor (op. cit.):

"For a number of reasons, we would recommend that researcher choose settings in which the subjects are stranger to them and in which they have no particular professional knowledge or expertise."

I regarded this advice very carefully because I was conscious that serious limitations could be imposed on me if I selected an organization in which my close relatives or friends or professional acquaintances worked. In the

context of the culture of the Nepalese society, informal relationships are predominant and permeate all walks of social life; hence I realized that I should choose an organization where I would not be restricted by commitments to close family relationships or blinded by biases from friends. I wanted a free and frank exchange of opinions, feelings and experiences. An organization that was largely unfamiliar to me in terms of its history, objectives, structure, and activities was selected and whatever little that I knew about it could not help me to form an opinion or a bias.

I decided to conduct my research in the Nepal Electricity Authority (NEA) because it had been established four years earlier as the result of a major planned organizational change programme that involved the complete reorganization of the electricity industry in Nepal. The NEA was a state-owned enterprise with the highest capital investment of the government and was the largest employer among the public sector enterprises. Its future role in the overall economic development of Nepal was considered extremely important by the government and, in addition, the sale of electricity to the neighbouring states of India was regarded as a prime source of revenue for the country. The reorganization was envisaged as a movement in the right direction for improving the performance of the industry. However, the achievements, performance and results were controversial issues and opinions were widely divided after four years of

operation. The government had formulated plans to execute more "reorganizations" of several other state-owned enterprises and create "authorities" but these plans were either shelved or postponed following the confusion and doubts in the creation of the NEA. The decision-makers were not very certain about the advantages of an authority or the radical institutional rearrangement of state-owned enterprises; and many civil servants regarded the reorganization of the electricity industry as a total fiasco. This disputable situation of an ambitious planned change prompted me to undertake an investigation in the NEA.

Another important consideration for selecting the electricity industry was that the organizational change seemed to be still "visible". The creation of the NEA itself was an outcome of the reorganization and various other aspects of the change could be distinctly identified and associated to the goals of the reorganization. I was able to recognize and locate organizations, groups and individuals who participated in the planning and implementation, and in the interactions and decision-making processes. The reorganization was initiated only four years prior to my study and was still "fresh" in the memory of the people. Moreover, the implementation of the changes related to the organizational design and the staff transfer continued much later after the validation of the NEA and I could

focus my inquiry on changes that were undertaken fairly recently.

The availability of data related to the organizational change was an important reason for the choice of the NEA; and both primary and secondary data were easily accessible to me. The availability of secondary data was an important consideration in the context of Nepal because the documentation system in all government offices is very poor and efforts to recover old records and reports can be an impossible task. In the case of this reorganization, the involvement of the international lending agencies and expatriate management consultants ensured that documentation was well recorded by them and I was able to get hold of all the reports and documents. The primary data generated from interviews with people was not problematic because (as stated earlier) the events were fairly recent and not something that had faded in their memory. I was also fairly optimistic that people would be eager to talk to me and tell me their "stories" because the change was not only a controversial event but affected the careers of many who worked in the industry. Since several organizations took part in the reorganization, I was able to speak to a wide range of representatives and sources so that I could "triangulate" (Webb, et al. 1966) the data and develop an accurate picture of the change process by weaving together the information collected from them. The turnover of staff in the NEA in the past four years had

been high because a large number of them managed to return to the ministry and a few resigned in the course of the change. These individuals were very helpful for generating and checking data because they had been members of the NEA for a long period of time and knew the details of the reorganization; they did not feel any restraint in talking freely as they were out of the NEA. I decided to talk to the individuals who were detached from the situation but who were still familiar with the events. A valid and an accurate interpretation of the change process was attempted by putting together pieces of data acquired from many sources.

I had no problem gaining access into the NEA once I proved to them that my research was purely academic and for a doctoral degree. I needed some evidence to reflect my goals and objectives and I turned to my employer for the introduction. Brown et al. (1976) explain such a strategy to gain access:

"Access to research *setting* may often be solved by 'engineering tricks', for example using a prestigious institution's stationary or working together with a trusted person who can guide you into the system."

As a member of the Staff College in Nepal, I asked my executive director to introduce me to the managing director of the NEA and request him to allow me to undertake a study of the reorganization of the electricity industry. My boss prepared a formal letter in which he introduced me, mentioned the topic of my

research and stated the academic nature of my work. I might mention here that the Staff College as the training institution for civil servants and the public sector has a prestigious position and is treated favourably by governmental agencies. My first meeting with the NEA was with the managing director during which I explained to him the scope, purpose and method of my research. He was extremely supportive and allowed me to initiate the study at my convenience. In addition to the letter from my boss, I also carried an introductory letter from my academic supervisor which spelled out my research area and this evidence was very useful for gaining access to individuals and expatriates. I felt that my image as a researcher was enhanced as soon as I produced my supervisor's letter in the introductory phase of the interviews because of the goodwill and prestige attached to the academic institutions of the U.K. by the Nepalese. The expatriates, that is the management consultants to the NEA and the staff of the lending agencies, provided me access quite readily after I had produced the two introductory letters and described to them the nature of my research. The study required me to talk to several government ministries and agencies and I had to gain access to these settings and this again seemed a fairly easy process. I experienced an easy and quick acceptance because I was considered and treated as one of them, that is, an employee of the government and part of the "family", and not an "outsider". Their acceptance was particularly important for my research because I needed

access to government decisions and documents which were classified as confidential. Mutual trust between the researcher and the researched seemed to prevail and this is one of the essential elements of access in qualitative research.

My access within the NEA was facilitated by the appointment of a liaison officer who assisted me in the introductions and arrangement of appointments with various staff members. He also supplied me with various written documents and files. He was extremely helpful in providing me an overview of the history of the electricity industry and the reorganization which enhanced my level of understanding of the NEA and prepared me for interviews with the others. Although I did make use of his assistance throughout the course of the research, I used him less and less to gain access to staff as I became more familiar with the NEA and its staff grew confident on seeing me around and came to know about my research. They did not mind me making direct contact as they preferred the informal way of going about things and setting dates, times and venues for our interviews.

### **Collection of Data**

The principle of data collection was placed within the framework of the qualitative methodology. My

preference for a subjectivist view of social science and methodology initiated me to gain first hand knowledge of the social world by getting close to individuals and exploring their world along with them. I supported the phenomenologist perspective which seeks to yield descriptive data so as to see the world as the subjects in it see it, interpret it. I stated earlier that people act on the basis of meanings and interpretations of objects; and organizations can be explained in terms of human actions. The real life experiences of people can be understood in terms of meanings given by the individuals and a social phenomenon may be explicable from their perspective. Therefore, my investigation into social action and process tried to capture the positions maintained by the individuals; and data collection was along the line suggested by Blumer (1969):

"one would have to see the operating situation as the actor sees it, perceive objects as the actor perceives them, ascertain their meaning in terms of the meaning they have for the actor, and follow the actor's line of conduct as the actor organizes it - in short, one would have to take the role of the actor and see his world from his stand-point."

#### i. Depth Interviews

The descriptive data produced from the qualitative method consisted mainly of people's spoken words and interpretations of various incidents and events related to the reorganization. Bogdan and Taylor (op. cit.) describe qualitative data as "personal documents....in



which people reveal in their own words their view of their entire life, or a part of it, some other aspect about themselves". Primary data of this nature was collected by unstructured/depth interview. Jones (1985a) recommends depth interviews where people are allowed to express their views and explain their version of reality:

"to understand other persons' constructions of reality we would do well to ask them (rather than assume we can know merely by observing their overt behaviour) and to ask them in such a way that they can tell us in their terms (rather than those imposed rigidly and a priori by ourselves) and in a depth which addresses the rich context that is the substance of their meanings (rather than through isolated fragments squeezed onto a few lines of paper)."

Dexter (1970) acknowledges that an unstructured interview brings out the interviewee's definition of the situation, a description of the situation, and allows him or her to choose and introduce relevant issues rather than relying upon the interviewer's notion of relevance. My interest was to explore people's meanings and to understand how these meanings influenced their actions and interpersonal interactions. I was able to reconstruct their past interpretations and experiences from the data generated by these interviews.

Lincoln and Guba (1985) suggest that depth interview should be the choice when the interviewer "does not know what he or she doesn't know" and must, therefore, rely on the respondent to tell him or her. This quality of depth interview was particularly suited to my exploratory

research because I wanted the respondents to explain the change process, how they created it and lived through it. On the basis of such data, I tried to locate a pattern or a perspective that could describe the phenomenon I was trying to study and guide my exploration. Therefore, a "grounded" understanding from data was possible when the depth interview was used.

The last consideration for using the depth interview was the historical nature of this research, that is, the study of an organizational change programme implemented several years earlier. There was no question of using the participant observation method although I accept it as a very useful tool for studying the process of change in which individuals, meanings, interactions, and construction of social reality can be closely examined, observed and interpreted. On the other hand, the depth interview as a joint exploration with people can contribute an accurate and a rich explanation of historical events and social process (as used by Pettigrew, 1985; and Berg, 1979 to explore strategic change).

## ii. Collecting Interview Data

The bulk of the data for this study came from depth interviews conducted with a total of sixty-three persons related to the reorganization in some way. These people represented a number of organizations but the majority of

them were from the NEA because it had retained most of the staff from the previous autonomous units of the electricity industry. Senior civil servants from five government institutions were included in the interviews and so were representatives of the three "external" agencies. These were the two lending agencies, the Asian Development Bank (ADB) and the World Bank, and Coopers and Lybrand, the management consultants. Since the creation of the NEA was sponsored by the ADB, it played a significant role in the initiation, design, financing and implementation of the reorganization; and I arranged to travel to the bank's headquarter in Manila to talk to individuals who actively participated in it. Unlike the ADB, the World Bank has a local office in Kathmandu and I was able to interview the deputy representative. He had been in Nepal for a long period of time and was very familiar with the reorganization because he was responsible for the power sector on behalf of the bank. A staff member of Coopers and Lybrand had been assigned to the NEA in Kathmandu since 1984 and I had several interviews with him. I also spoke to a senior consultant in the London office of Coopers and Lybrand who had worked on the reorganization for sometime in Nepal. Lastly, I conducted interviews with several retired civil servants who had been associated with the electricity industry in the past and those members of the electricity industry who had retired after the establishment of the NEA. Altogether thirty-six persons from the NEA were interviewed and most of them were from the higher

echelons. The senior management staff seem to dominate in the reorganization as they were directly involved in the decision-making and interactions. I spoke to several junior managers but they seemed to know very little because they were excluded from any kind of participation. Frequently they repeated the same story line that I had already heard from their superiors. A few middle level managers were interviewed because they were well "informed" about certain events or incidents.

The candidates who were interviewed emerged out of a gradual selection process as I moved along with the investigation and came to know more and more about the NEA. The first group of people were recommended by the liaison officer at my request because I wanted to talk to several staff who were closely associated and informed about the change programme. This was a starting point and the names of other staff for the next interviews were recommended by these interviewees. In addition, as I identified and understood the contents and details of the reorganization, I was able to relate events, decisions and outcomes to individuals who played principal roles and they were very important candidates for interviews.

All my respondents could be categorised into two general groups in accordance to the terms offered by Berg (op. cit.) but used in a slightly different sense by me. First, there were the "key actors" in the reorganization, that is, senior staff in the NEA, civil servants from

government organizations, and representatives of external agencies. These individuals were active in the planning, interactions and decision-making of the reorganization and they were influential members in the change. All of them were interviewed because I felt it would be essential to learn their meanings, definitions and role in relation to the change. These key actors seem to operate as a tightly-knit group and other members of the staff were disallowed access. The second group consisted of "key informants", that is, people who were either recommended by the key actors or by the other staff in the NEA. The informants were usually members of the electricity industry and they were well informed about the reorganization and the internal dynamics of the industry. These members collected information through both formal and informal channels and much of it was done on personal initiative. I selected the informants on the basis of their familiarity with particular aspects of the change because none of them knew everything about the entire change programme. As the "key actors" and "informants" were interviewed, I started to put together the main elements of the reorganization and I stopped further interviews only when I was able to draw a complete picture and when I realized that the new data was repetitive and did not generate useful information or insights.

The field research was conducted in two stages - the first from November, 1988 to February, 1989 and the

second from August to November, 1989. A "reflective" phase between the two stages was designed to assess the suitability and success of the methodology in the context of Nepal because I had a few doubts about people's reactions to depth interviews. As far as I was aware, this was not a very familiar method of research in Nepal and I was not sure how the respondents would react to it. The intermission was designed to study the data and formulate strategies for the next phase of the research. The advantage of conducting the research in two phases was that I could report back to my supervisor and share my experiences and findings, clear doubts and difficulties, and identify particular areas for investigation for the second field visit. Most of the interviews in the first phase were conducted within the NEA to give me a fair idea of the complexities of the reorganization and to identify key individuals and institutions who had played an influential role. The second phase of the research covered the external agencies and additional interviews were conducted with the key individuals in the industry to clarify and develop themes emerging from the data.

### iii. Interview Procedure

Most of the interviewees were reached by me in person to arrange an interview and only in a few cases did I use a telephone to make the initial contact. On meeting the potential interviewees, I was able to explain

the objective and purpose of the research, my professional background as an employee of the Staff College, the broad issues which could be touched upon during the interview, and, lastly, make arrangements for our meeting such as the date, time and venue. I always made a special request concerning the duration of the interview because I needed a fairly substantial length of time from them and I did not wish to be interrupted by other office business. The timing of the meeting was set according to the convenience of the interviewee. One of the questions that I was frequently asked at this stage was whether I could leave a copy of the questionnaire so that they could prepare for our meeting. Many of them were surprised when I explained the nature of my interviews and we generally agreed that issues related to the reorganization would be jointly explored by us. Interviews were also arranged with the people concerned in Manila and London through correspondence and telex before I travelled to see them.

At the time of the interview, the respondent was again briefly informed of my research interest and we jointly identified the subjects we could talk about. When I had a list of specific questions to be addressed to the interviewee either to clarify the confusion from our previous meeting or questions related to his role or decisions, I chose not to mention this in the early stages of the interview because I waited to see if the issues would be raised by the person himself. I did not

wish to influence the opinion of the interviewee and I wanted to see if he would provide a different interpretation of the same issue. Before the interview began, I assured the respondent that I would maintain total confidentiality of his statements and comments if he so wished and my research was for an academic degree and not to be submitted to my employer or the management of the NEA.

The use of a tape recorder in the interviews was one of my prime worries because I was not sure how people would react to such a request especially as this would be a novel experience for majority of them. However, I did set out with the intention of recording all the interviews since it offered many advantages, as described by Lincoln and Guba (op. cit.):

"providing an unimpeachable data source; assuring completeness; providing the opportunity to review as often as necessary to assure that full understanding has been achieved; providing the opportunity for later review for nonverbal cues such as significant pause, raised voices, or emotional bursts; and providing material for joint interview training and reliability checks".

I always made a request to record each and every interview but the choice was always left to the interviewee without any pressure from my side. I explained to them why I was using it and most appreciated my position. The large number of interviewees who agreed to be recorded was far more than my expectation and I was able to record most of the "important" interviews. I



experienced certain advantages of using a tape recorder during the interviews. I was more attentive to the conversation, able to hold eye contact and listen to what was said, make notes of issues that confused me or concepts that was repeatedly raised and, lastly, I was attentive to non-verbal gestures made by the interviewee that had relevance to the issues being discussed. However, a few interviewees frankly stated that the presence of a tape recorder would restrain them from speaking their minds and relating experiences freely and I would only get a "censored" version of their interpretation. In these circumstances, I appreciated their honesty and I decided not to use the tape recorder. We agreed that I could return for an another interview if I needed to clarify any of the issues we discussed or if I wanted to explore any other topic at a later stage. On the whole, I found a great deal of willingness to cooperate and assist me. For example, I had five to six hours of interviews with some of the key individuals who were very senior managers or civil servants and they obliged me by meeting several times, even during weekends.

The average length of each interview was about two hours; and few of the more "useful" ones took much longer and were conducted in several sessions. Almost all the interviews started off as a general discussion exploring the broad issues that the interviewee wanted to talk about. I proposed an issue only when the latter insisted

that I kick off the discussion. I was always careful and attentive to the salient points of the data being presented by the interviewees and I made sure that I heard and understood what they were saying. Probing and sensitive questions and issues were usually kept aside for the latter part of the interview when both of us were more relaxed. I had to use my judgement to decide how far I could go with the discussion on a few of the sensitive issues and I relied a good deal on long interviews with key individuals. The story line articulated by each of them was compared and studied. The second and subsequent round of interviews with the key individuals were used to explore the conceptual themes that were emerging, and more interviews in the second field visit were used to develop an understanding of the theoretical concepts in relation to the change process. The purpose of the depth interview was more than the collection of general statements and opinions of the interviewees; it was a search for individuals' meanings. Berg (op. cit.) explains the objective of the "deep" interview:

"I see an interview in depth as addressing itself to a higher level of insight than an ordinary interview. To interview in depth accordingly means to go beyond the obvious, to explore the meaning of a statement (rather than to simply to record it), to look for patterns (consistencies and inconsistencies) in what is said, etc. Thus, an interview in depth is more than a simple collection of data; it is also the simultaneous interpretation and validation of this data within the researcher's frame of reference."

Blumer (1969) makes a similar point when he recommends that researchers should uncover the reality of the

natural world by getting "deep" into group life and by careful study. The interviews in this research were used to achieve such a goal.

#### iv. Written Documents

Different sources of secondary data, especially written documents, have been extensively used in this research to learn about the background of the electricity industry and to trace events, identify persons and analyse decisions and choices related to the reorganization. The study of documents has furnished essential information about the history, growth and development of the industry and seems to make my inquiry more sensitive in the collection of primary data by depth interviews. I shall briefly refer to the key documents used in this research. The files maintained by various ministries and government agencies on different decisions were a very significant source of information. I was allowed easy access to all files in the Ministry of Water Resources which kept records of cabinet and ministerial decisions on the reorganization. The secretary of the ministry was very supportive to my research and he directed the administration division to make the files available to me. The Public Services Commission maintained on file decisions on personnel matters and copies of correspondence with the NEA and I was allowed to study these documents. The power project documents of the lending agencies described the loans negotiated

between the borrower and the banks and contained a separate section on organization and management of the electricity industry; these documents were made available to me by the two banks. The numerous volumes of the management consultancy report covering the institutional study of the electricity industry were a very rich sources of data for understanding the goals, objectives and contents of the "planned" reorganization. The report submitted by Coopers and Lybrand was specially relevant to this study because it was the "planned" organizational change, that is, the institutional arrangement envisaged for the NEA. My study attempted to explain the "how" and "why" of organizational change by relating the planned change to the "real" change processes initiated by the many interacting individuals.

The utility of the written document was enhanced by incorporating it to the information from depth interviews because the documents considered alone were only records of decisions and events and did not contain meanings and intentions of the individuals. The documents usually stated an outcome without adequate interpretation of the process which caused it to occur; and the interviews offered insights into actions. The practical limitations of written documents for the study of the politics of the decision-making process in government are recounted by Allison (1971):

"Information about the details of differences in perceptions and priorities within a government on a particular issue is rarely available. Accurate accounts of the bargaining that yielded a resolution of the issue are rarer still. Documents do not capture this kind of information. What the documents do preserve tends to obscure, as much as to enlighten. Thus the source of such information should be the participants themselves.....What is required is access, by an analyst attuned to the players and interested in governmental politics, to a large number of participants in a decision before their memories fade or become too badly discolored."

Allison draws his methodological principle from Neustadt's (1960) political analysis of the American presidency and quotes him in his book:

"If I were forced to choose between the documents on the one hand, and late, limited, partial interviews with some of the principal participants on the other, I would be forced to discard the documents."

I have not rejected written documentation but tried to use it in conjunction with data acquired from depth interviews. The data obtained from these two sources have been optimally used in my analysis.

### **Analysis of Data**

Data analysis involved the process of making sense of a large collection of recorded statements and written documents; the main goal of the analysis was "to understand the world of the research participants as they construct it" (Jones, 1985b). The analysis took place throughout the field research period and directed the process of data collection. A continuous and sequential

analytical activity contributed a "set of tentative conclusions based on a running analysis of the field data instead of a mass of undigested fieldnotes" (Becker and Geer, 1982). The two activities of research, that is, data collection and data analysis, were not treated as disconnected and sequentially-exclusive functions with the former preceding the latter; rather, overlapping was considered essential for the qualitative research I was undertaking. Data analysis enabled me to direct my inquiry from very broad issues to more specific questions related to the social process and actions and to concepts and constructs emerging from the data. Glaser and Strauss (op. cit.) state that by joining collection and analysis activities, the researcher is "tapping to the fullest extent the in vivo patterns of integration in the data itself; questions guide the collection of data to fill in gaps and to extend the theory". Miles and Huberman (1984) agree that the data collection is closely associated with three concurrent flows of analytical activities:

"...these three streams - data reduction, data display and conclusion drawing/verification - as interwoven before, during, and after data collection in parallel form, to make up the general domain called analysis.....the three types of analysis activity and the activity of data collection itself form an interactive, cyclical process. The researcher steadily moves among these four 'nodes' during data collection, then shuttles among reduction, display and conclusion drawing/verification for the remainder of the study."

The interweaving between data collection and analysis activities in my study was well assisted by the

execution of the field research in two stages (as stated earlier); the phase between the two stages was used to undertake a very detailed analysis of the data. I was able to leave the field and write a "memo" of my findings and ideas, and it was presented to my supervisor for his comments. This interaction not only contributed to the clarification of confusion and identification of conceptual themes but was an immensely useful exercise for subsequent data collection and analysis.

Transcripts were prepared from selected interviews which yielded useful information to my research questions and I ended up with 1200 pages. The key points were noted down from other interviews when I decided against writing a full transcript. I also prepared a file consisting of notes I made during the course of the interviews, such as my feelings and impressions at the end of interviews, the context of the interviews, any particular non-verbal reaction of the interviewees, issues to be further pursued, etc. This kind of information was useful as I started to become "immersed" in the data and when I wanted to reflect upon the contextual conditions of the interviews. In addition to the primary data, written documents from several sources were classified, filed and studied. The data analysis was concerned with drawing meanings from these extensive sources.

The process of data analysis I followed was generally in line with the "constant comparative method"

developed by Glaser and Strauss (op. cit.) and operational refinements on it by Lincoln and Guba (op. cit.). Goetz and LeCompte (1981) describe the constant comparative method as a combination of inductive category coding with a simultaneous comparison of all social incidents:

"As social phenomena are recorded and classified, they are also compared across categories. Thus, the discovery of relationship, that is, hypothesis generation, begins with the analysis of initial observations, undergoes continuous refinement throughout the data collection and analysis process, and continuously feeds back into the process of category feeding. As events are constantly compared with previous events, new typological dimensions, as well as new relationships, may be discovered."

The initial step in my analysis was the identification of themes emerging from the data which illustrated and described the process of change. This required very careful repeated listening to the interview tapes, several reading of the transcripts, and close scrutiny of my notes on the interviews. Gradually "chunks of meaning" (Marshall, 1981) began to come out of the data which various qualitative researchers describe in different terms, for example "incidents", "unitizing", "themes". I searched for statements and phrases related to the process of reorganization and used my "tacit knowledge" to make a judgement on the selection. Four separate files were created early in the research to pay special attention to the four major planned changes which constituted the reorganization: the creation of a single authority, the enactment of new legislation, the



organization structure of the new authority, and the staff transfer and adjustment. The themes related to the four changes were entered into index cards in the respondent's words as much as possible and additional codes were used in the cards to mark distinctions concerning interviewees, organizations, and sources. All the themes emerging from the data were written on the cards after making comparisons with previously noted themes and I was not too concerned about over-inclusion at this stage. A collection of themes was prepared for each of the four planned changes.

The next step was creating categories to bring together cards with similar content or cards that described similar properties of the change - "to devise rules that describe category properties and that can, ultimately, be used to justify the inclusion of each card that remains assigned to the category....and to render the category set internally consistent" (Lincoln and Guba, op. cit.). Each and every card was compared and closely examined to make a decision on a new category or inclusion into an existing one. At times, the properties of a category had to be slightly redefined to incorporate the meanings generated by a new theme. There was a constant back and forth movement between themes and categories throughout the period of data collection and analysis. The categories were also repeatedly compared to check for overlapping or close relationship that could be integrated. A few remaining themes which conflicted or

contradicted with the overall pattern of categories were set aside for interpretation for a later stage.

The final task was the integration and linking together of categories, that is, bringing together those with similar properties. Distinct parallels, regularities and patterns in the categories were searched and noted down and, at the same time, a few of the categories were screened because the supporting themes were inadequate or irrelevant to the subject of my study. On this basis, the central concepts on the change process were drawn up - these concepts were explicitly "grounded" on the categories emerging from the data. Finally, the concepts were interpreted and developed by relating them to the wider bodies of knowledge and theories in the literature.

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### Validity

The validity of findings in qualitative research still tend to be surrounded by controversy and one of the reasons may be that "there are no canons, decision rules, algorithms, or even any agreed-upon heuristic in qualitative research to indicate whether findings are valid and procedures robust" (Miles and Huberman, op. cit.). On the other hand, very often the validity of the findings of the qualitative method is unfairly criticised by using the criteria developed in the quantitative methodology. For example, the quantitative tradition

usually regards it as extremely crucial to avoid interview bias because this issue is tied up with the question of reliability and replication. Jones (1985a) rejects such a criterion for qualitative research because:

"the notion of some kind of impersonal machine line investigation is recognised as chimera. An interview is a complicated, shifting, social process occurring between two individual human beings which can be never exactly replicated."

Lincoln and Guba (op. cit.) argue that replicability depends upon an assumption of "naive realism" because replication can only take place if there is something "tangible" and "unchanging" out there. However, "if the thing 'out there' is ephemeral and changing, noted instabilities cannot be simply charged off to the inquiry procedure; they are at least as much a function of what is being studied as of the process of studying". They contend that repetitions cannot be applied to the same units, just as "one can never cross the same river twice".

Shalin (1986) argues that the relationship between validity and reliability is that of "uncertainty", that is, the two cannot be maximized simultaneously with arbitrary precision:

"Reliability, taken in its most common sense of reproducibility, is typically secured by the neutralization of the multiple determinations of things: the more thoroughly the thing is stripped of its multiple identities, the more reliably the measuring device yields the same result on successive occasions. But the more reliable the data, the less valid it is."

Shalin recommends commitment to validity as the basic goal in research, as done by the interactionists.

Blumer (op. cit.) states that the empirical validity in social enquiry can only be achieved by meticulous examination of the empirical social world and not by "adhering to scientific protocol, engaging in replication, testing hypotheses, and using operational procedure". Methodological schemes which can capture the reality that exists in the empirical world fulfil the test of validity. "Exploration" and "inspection" activities suggested by Blumer can contribute to an understanding of the empirical world and I have tried to incorporate the same principles in my method.

The validity of a social inquiry should be considered in different terms and not necessarily compared with approaches from other perspectives. Morgan (1983) suggests that different research perspectives make different kinds of knowledge claims with the result that criteria for what counts as significant knowledge should vary from perspective to perspective:

"...it is not possible to judge the validity or contribution of different research perspectives in terms of the ground assumptions of any one set of perspectives, since the process is self-justifying. Hence the attempts in much social science debate to judge the utility of different research strategies in terms of universal criteria based on the importance of generalizability, predictability and control, explanation of variance, meaningful understanding, or whatever are inevitably flawed. These criteria inevitably favour research strategies consistent with the assumptions that generate such criteria as meaningful guide-lines for the evaluation of research. It is simply inadequate to attempt to justify a particular style of research in terms of assumptions that give rise to that style of research."

Lincoln and Guba (op. cit.) agree that the criteria defined from one perspective may not be appropriate for judging actions taken from another perspective and they propose a criteria that is more appropriate for qualitative research. They suggest various activities to increase the probability of credible findings, that is the internal validity, and I refer to several of these to address the validity of my research. For example, they propose "prolonged engagement" in the social setting and "persistent observation" which have both been important aspects of my inquiry in the process of trying to get "deep" into social actors and actions to interpret their empirical world. In addition, the technique of "triangulation" (Webb et al., 1966) was extensively used to collect data and to draw different perspectives and opinions on an issue from various sources (Denzin, 1970, 1978; Halfpenny, 1979). Every change action/decision was explored from interpretations provided by the key individuals and informants; hence a "finding" was

achieved "by seeing or hearing multiple instances of it from different sources, and by squaring the finding with others it needs to be squared with". Diesing (1972) proposes that "the validity of a piece of evidence can be assessed by comparing it with other kinds of evidence on the same point".

The case study method is often criticised on the grounds that it provides little basis for generalization, that is, the issue of external validity. The value of generalization can be measured in terms of support and confirmation with other theories according to Yin (1984). He differentiates between "statistical generalization" which is largely adopted by the quantitative researchers doing survey research and the "analytical generalization" of the case method; and argues that it is incorrect to apply the former concept on the latter. An investigator using the case method should "try to generalize findings to theory, analogous to the way a scientist generalizes from experimental results to theory". Berg (op. cit.) makes a similar argument on generalization:

"If similar observations are made by other researchers, there is a greater possibility that the objects of observation are not isolated phenomena, but apply to other organizations as well... The issues of validity and generalizations can therefore not be limited to this case, but must include other theories as well. As this study uses a wide variety of theories from different fields to support its findings, there seems to be some reason to assume that the findings can be of general value."

The political analysis of the reorganization of the NEA and the key concepts related to the process of change confirm with the theories developed in the general literature.

### Summary

The choice of methodology was related to ontological and epistemological considerations. An exploratory, qualitative method of research was selected so as to arrive at concepts and perspectives which could be "grounded" on the data. The main technique for data collection was the depth interview because it was suited to capture and interpret the empirical world of the social actors and their actions in relation to the process of change.

### CHAPTER THREE

#### THE ELECTRICITY INDUSTRY AND THE PLANNED REORGANIZATION

This chapter will focus on the background of the electricity industry in Nepal - the development policies pursued by the government and the establishment of various autonomous bodies that comprised the institutional arrangement of the industry before the reorganization. The involvement of the two main lending agencies, viz. the Asian Development Bank (ADB) and The World Bank (WB), in financing the development of the industry will be reviewed, including the new institutional arrangement advocated by them. The key contents of the planned reorganization in the form of recommendations of the expatriate management consultants will be summarised as these planned changes were accepted by the government and endorsed by the lending agencies. Finally the "real" outcomes of changes are briefly mentioned which will be further discussed and analyzed in the subsequent chapters.

A short introduction to the political and economic development of Nepal is included in the beginning of this chapter for two reasons: first, in order for the reader to have some essential background knowledge of the country; second, the "macro" context in the country can



be related to the events and practices in the electricity industry and hence may be relevant.

### **Nepal: An Introduction to Political and Economic Development**

Nepal lies between China to the north and India to the east, west and south and is therefore a landlocked country sandwiched between the two most populous nations of the world. The country covers 147,181 square kilometres of which 35 per cent lies in the mountains, 42 per cent in the hills and 23 per cent in the plains. The physical structure is of great diversity - from the high, snowy peaks of the Himalayan mountain range, the land descends through the hills to the flat, sub-tropical plains of the Terai bordering India. Only 26 per cent of the country is cultivated and the remaining mountainous terrain has placed great constraints on national development. The data compiled by the government's Central Bureau of Statistics on the demographic features of Nepal state that the national population was around 17.6 million in the mid-eighties. There has been an increasing trend in the population growth rate which reached 3.2 percent during 1976 and 1981. Despite successive developmental plans and growing foreign assistance over the last three decades, Nepal remains one of the least developed countries in the world.

Nepal was isolated from the rest of the world until 1951 when a popular revolution overthrew the autocratic rule of the Rana family and the monarch, King Tribhuvan, was installed in his rightful place. In 1846, Jung Bahadur Rana, a shrewed and skilful member of the noble family, plotted the murder of all his rivals in the evening and he became the prime minister and ruler of Nepal. His family retained control until 1951, running the kingdom as if it were a private estate whose functions and interests were to enlarge the family fortune. The Shah kings were left on the throne in order to give the regime legitimacy but they were heavily guarded and treated as "prisoners" in the royal palace. This Rana regime lasted over a hundred years because they were supported by the powerful presence of the British in neighbouring India. Nepal was in a kind of political dependency of Great Britain for nearly a century and this arrangement had benefits for the Britishers and for the Rana rulers of Nepal:

"The former were guaranteed a self-manning buffer against possibly hostile powers to the north, a regular supply of soldiers from the hill regions of Nepal (the famous Gurkhas), a small but growing market for manufactured goods, and, probably even more important, a source of raw materials and primary products from Tibet and Nepal; the latter were guaranteed a minimum of support and protection, and a degree of insulation from outside pressures for political change." (Seddon, et al., 1979)

The Rana regime had a devastating effect in the development of the country because the system of government functioned primarily for their personal

benefits. Mihaly (1965) describes the nature of the political history under the Ranas:

"The family was concerned with profits. By maximizing government revenues and minimizing expenses, Rana prime ministers created surpluses which went into their personal accounts and financed palaces, enormous expeditions to Europe, and vast investments in India....In this very private enterprise state, the function of the civil service was to maintain the flow of revenues and to keep down costs. All decisions were made by members of the Rana family. Civil servants carried out orders and focused their attention on avoiding the most dangerous of all mistakes: misuse of funds. Initiative and enterprise were not only unwarranted qualities; they were dangerous. The Rana civil service, staffed by nervous men terrified of decision-making, was one of the family's most unfortunate legacies."

When India gained independence in 1947 from the British, the evident power of the ruling Indian Congress Party had major political repercussions within Nepal because the Nepali Congress Party was openly supported by the former and many of the party workers sought political asylum in India and operated from there. The Rana regime had always been dependent on British India and when the partition took place and India became independent, the basis for Rana rule was so seriously undermined that three years later they were removed from power in Nepal. Seddon et al. (op. cit.) explain the support from the new government of India for political changes in Nepal as motivated by the former's own self-interests:

"..the new popular forces that came to power in India were suspicious of the autocratic regime to the north, much as they were of the princely states in India itself, and established links with the small, but rapidly frowning 'radical' movement within Nepal; at the same time, there was considerable concern at the possibility of violent upheaval in Nepal, in view of the growing strength of China and its supposed ambitions in Asia, particularly after 1949."

Between 1951 and 1960, Nepal experimented with a multi-party parliamentary form of government. The Interim Government Act of 1951 restored legal and constitutional powers to the king but the Ranas, though officially ousted from power, retained very considerable influence in the circles of government and in the army. In 1954, the king proclaimed that supreme rights in the legislative fields should be vested in him pending the drawing up of the constitution. The constitution of 1959 allowed for a parliamentary system of government with residual and emergency powers vested on the king. During the decade, many political parties sprang up, many of them essentially based on the personal following of a particular political figure rather than popular movements.

The election in 1959 gave an overwhelming victory to the Nepali Congress Party winning 74 of the 109 seats and they formed the first popularly elected government in the history of Nepal. But the experiment with multi-party system was to last a very short time. Pradhan (1973) explains that the government that came to power in 1959 tried to implement "radical" reforms that included

designs to "modernise" the administration and to encourage economic and political development through popular participation. Its objectives included radical agrarian reform, a fully planned economy, the elimination of discrimination and privilege in recruitment to the civil service, the army, and in other walks of life, and the reorganization of the administration. These plans and programmes of the government were opposed by the eighteen royal appointees in the upper house. Furthermore, the intentions of the government aroused considerable fear among the nobility and other more conservative sections of the population, including the royal palace itself who all were keen to defend the traditional vested interests against the proposed changes. In December 1960, King Mahendra, with reference to article 55 of the Constitution, revoked the Constitution itself, dissolved parliament and the cabinet, suspended the fundamental rights and promised "to restore to Nepal a more suitable form of democracy based on traditional practices of the Nepalese people".

In 1962, King Mahendra instituted a partyless, "panchayat democracy" which provided the only way in which the majority of the Nepalese people could legitimately participate in political activities. The national assembly consisted of 140 members of which 120 were directly elected from the seventy-five districts and the remaining twenty-eight were nominated by the king. The king also appointed the prime minister and the

cabinet of ministers. The significant feature of the system was that the national assembly consisted of individuals representing personal interests rather than members of political organizations representing the interests of particular sections of the population.

All forms of political parties were officially banned from 1961 but they continued "to operate and have an influence on political life in Nepal; some, like the Nepali Congress Party and the Communist Party, continued to speak and act 'in the name of' and 'on behalf of' the mass of the Nepalese people in opposition to the more conservative interests so powerfully represented in the government, state bureaucracy and other less formal groupings and institutions" (Seddon, 1987). Resistance to the political system was expressed now and again. King Birendra's government was pushed to hold a national referendum on the question of a possible return to multi-party democracy at the beginning of 1980's when growing unrest among students, labour and the intelligentsia was supported by the banned political parties. A narrow majority of voters supported the panchayat democracy but 45 per cent of the electorates also voted for the reintroduction of political parties and wanted change. Although the panchayat political system continued after the referendum with few changes, within less than a decade there was another popular uprising. In April 1990 people throughout the country demanded the restoration of democracy. It was reported that as many as 300 hundred

people died in ten weeks and hundreds more were injured. In the end, King Birendra repealed the ban on political parties and promised a new constitution and free elections. A new constitution was approved by the king in the latter half of 1990 and his future role was expected to be as constitutional monarch as in the UK. Since the general elections in May 1991 in which the old Nepali Congress Party secured the majority in parliament, Nepal has entered into a new political era in which the top priority of the government is facing the challenges of economic development of the country.

Blaikie, et al. (1980) state that the principal concern and priority of the panchayat political system was the control of political opposition to it. Various means were adopted by the government and the growth in the size of the bureaucracy was one of the successful strategies:

"Perhaps the most important of these has been the massive growth in the bureaucracy - in terms of number of employees - through expansion of the number of distinct departments and offices in Kathmandu in particular but also laterally in the Regions. This serves at the same time to absorb relatively well-educated and politically dissident young men; to ensure that promotion and advancement depend generally on the conformity as much as on the technical ability and merit; and also to be seen to provide, for the more dedicated and idealistic, some chance of influencing the future of their country, albeit within the strict limits imposed by the still highly personalized structure of the bureaucracy."

The same authors warn of a "crisis" that was looming over the country: crisis because of the state of

underdevelopment and crisis because of the government's inability to change direction towards catastrophe in the previous twenty years. They warn that the country as a whole would collapse unless major social and economic changes were introduced "in the relations of production associated with the various forms of production that together constitute the economy" and a major shift in the distribution of power. The ruling class in Nepal was interpreted as doing a "tightrope act", confronted with a basic dilemma: "that of promoting the economic and social changes without which the country as a whole will collapse and bring about their downfall, while at the same time preserving the essentially non-progressive political structure in whose absence their own privileged position becomes rapidly threatened". The crisis of underdevelopment was largely blamed on the traditional vested interests of the dominant group in power (a continuation of the legacy of the Rana regime), such as the elites, landlords, senior bureaucrats, aristocrats, etc. Seddon (op. cit.) refers to the strength of the conservative interests at the higher levels of the state bureaucracy which inhibited developmental initiatives in the country and encouraged only those forms of state intervention whose effect was "to further strengthen the more conservative vested interests in the wider Nepalese economy and society". He disagrees that the failure of the bureaucracy to implement policies conceived and developed at the highest level in an effective fashion



could be explicable only in terms of administrative capacity and organizational structure.

The national crisis which had been building up can be expressed and explained in terms of records of past economic development. A United Nations (UN) report (ARTEP, 1974) opened up with a very gloomy picture of the country: "Nepal is poor and is daily becoming poorer". Beenhakker (1973) states that during the years 1956 to 1965, the national output grew at the average rate of about 2 per cent while the population growth tallied about 2.5 per cent per year. In 1972, the OECD stated that the annual growth rate in per capita food production indicated that Nepal attained a zero rate of growth during the decade and this too in a country where 90 per cent of the population were dependent on subsistence agriculture. The IBRD/IDA Bank Atlas of the WB illustrated a decline of GNP per capita of 0.1 in the 1965-1973 period. In the 1970's, the UN classified Nepal as one of the world's "poorest twenty-five" countries. Seddon et al. (op. cit.) state that Nepal was not just a very poor country that was increasingly unable to provide adequately for its rapidly growing population because "that would be an over-simplification and in many respects an understatement of the problems". They describe the major components of the problems: "...serious over-population, ecological collapse in the densely populated and highly vulnerable hill areas (where 30 per cent of the cultivable land supports some 60

percent of the population), the elimination of certain important 'natural' resources (such as timber), and overall declining yields in agriculture...".

The situation had not improved in the 1980's. According to the World Development Report of the WB (1985), Nepal had a GNP per capita of US \$ 160 which made it one of the poorest nations in the world. Between 1979 and 1985, the agricultural sector consistently contributed 60 per cent of the national GDP according to the National Planning Commission (1985) and industrialisation was extremely slow in spite of the various policies introduced by the government. Over 90 per cent of the labour force was engaged in subsistence agriculture (a proportion which declined by only 4 per cent since 1961) and agriculture products constituted more than 60 per cent of all exports and 82 per cent of total industrial raw materials. In 1983, 42.55 per cent of the population lived below the poverty line. The poor performance of the economy was clearly reflected in the trade figures. Total exports were constantly offset by higher total imports and there was a trade deficit every year. India continued to be the main trading partner and half of the total trade was carried out with it. Thus there was a perpetual dependence on India for trade and for transit, virtually to the exclusion of any other country, and this served "to reinforce India's monopoly position in the Nepalese market and her ability to perpetuate that monopoly through international trade

agreements which Nepal has little choice but to accept" (Seddon, et al.). The expiration of the bilateral trade and transit with India in March 1989 and the failure of the two governments to come to an agreement was a serious blow to the economy of Nepal. "Nepal's external trade was severely constrained, posing potential problems for economic growth and the pace of reform" (The World Bank, 1989).

The implication of underdevelopment and poor economic performance is that the Nepalese economy has been sustained for a long time by aid from donor countries and loans from developmental agencies. Gaige (1975) argues that aid in the past had been supportive to the prevailing political economy and kept the panchayat political system afloat:

"The financial support of the four major aid-giving nations (India, China, USA, USSR) has been accompanied by the rhetoric of change. However, their aid has assisted the monarchy both directly and indirectly to create a better-equipped and better-trained army and to put a large number of potentially restive young men on the bureaucratic pay-rolls. It is true that aid-giving agencies of several nations have pressed the king of reforms, but aid programs have been maintained despite the continued absence of significant reforms because, for these reasons, change has a lower priority than maintenance of the status quo, which they all found to their advantage for different reasons. Thus, in the short run at any rate, foreign assistance has enhanced the monarchy's chances of survival and has inhibited the growth pressures for fundamental changes."

Blaikie (1983) argues that "foreign aid has served to provide alternative sources of income for an ailing

landed aristocracy and for the maintenance and proliferation of the state apparatus.....it has failed largely to provide a political opposition to the status quo. The inexorable and painful upheavals which would have occurred sooner without this source of economic support are thereby postponed and will take a different form than otherwise would have been the case without foreign aid". Aid was often secured by the government after presenting various development plans to the donors and lending agencies, but these plans failed to translate into effective action and implementation. Over the years, new plans representing new thinking in the government's social and economic policy were put forth but often these were only changes in rhetoric.

The budget speech of the Finance minister in the fiscal year 1986/87 stated that the scarcity of domestic resources was the main obstacle to the expansion of public sector investment. The total national expenditure was met by 47 per cent revenue, 11 per cent foreign grants, 21 per cent foreign aid loans and the balance was raised from domestic borrowing. In the fiscal year 1987/88, an estimated 41 per cent of total national expenditure was derived from foreign sources.

### **The Electricity Sector**

Undeniably the mountainous physical feature of Nepal has been a constant source of hardship to the people and one of the main challenges in the development of the nation. Many generations of Nepalese have been carving out a living from agricultural activities on the rugged slopes of the hills and mountains. Transportation and communication facilities are still lacking in much of the hill areas and provisions of other forms of modern amenities have been extremely difficult in the absence of a proper transportation network. In addition to these geographical difficulties, the country lacks many of the natural resources (such as minerals, oil, forests, etc.) which can contribute to rapid development as in other developing countries. Ironically, the same steep slopes of the Himalayan mountains offer hope for the future development of the country. The altitude of the country drops from 29,000 feet to sea level within a short distance of fifty/sixty miles and the torrents which cascade down the southern slopes of the Himalayas are a rich potential source of hydroelectricity. Many analysts believe that water is Nepal's only significant natural resource and electricity generation is the only hope for the modernisation of Nepal. The theoretical hydropower potential is estimated at 83,000 megawatts (MW) which is fairly widely distributed throughout the country. In 1985, the Ministry of Water Resources (MWR) estimated the economically exploitable power potential to be around

25,000 MW. (The economically exploitable hydro potential is limited to the ideal potential of sites that can be developed at costs competitive with other sources and that have no unacceptable social or environmental impacts). Out of this huge potential, only 160 MW was developed by 1987 and a further 78 MW was under construction.

In recent years, the government of Nepal has viewed the efficient exploitation of this enormous resource as one of the country's most important economic priorities. The government has recognized the need to substantially reduce the cost of imported fuels, improve the availability of power to the domestic market and export competitively priced hydropower to India. The export of hydropower to India represents Nepal's most attractive medium-term foreign exchange option. The prospects for a hydropower-led export strategy are particularly good since the government of India estimates of India's load growth call for an addition of more than 5000 MW capacity per annum in the foreseeable future. Moreover, few of the potential projects in Nepal are very big (3,000 MW or above) and would be suitable for developing large exports to India.

### Development Policy on Electricity

The importance of the electricity sector for the economic development of the country has been frequently highlighted at various levels of the government in the past. At the highest level, the King has proclaimed that "if our water power resources could be harnessed to turn them into an economic blessing, it is our belief that the spring of national development would surely be released in the country". Similarly, the development of the electricity sector has been given high priority in the policies spelled out in the various plan documents. The Third Plan (and the first by the Panchayat government) of 1965-1970 indicated such a realization among the planners:

"Power is a basic requirement in the economic development of any country. In Nepal, the hydroelectric power potential is immense because of the abundant water resources. However, the development to date is not satisfactory and serious thought has to be given to power development during the Third Plan period. Lack of adequate transport facilities, hydrological survey data and technicians cause many bottlenecks...To determine the demand of industrial concerns and households for power, a plan has been framed dividing the country in three broad sections."

A significant 15 per cent of the total budget of the plan outlay was allocated to the sector.

The Fourth Plan (1970-1975) continued to recognize electricity as essential for "industrialization, agricultural development and for the development of other

sectors". The government was also informed that the total hydroelectricity potential was estimated at 80 million kilowatts and hence it was more concerned about harnessing this source of energy gradually. The following objectives were laid down in the plan:

"In Nepal the objectives of power development are to make power available for the development of the national economy by utilising the water resources; to make power available in urban and rural areas, thereby helping in the development of agriculture and industry; and to utilize water resources properly in order to increase national income."

An important policy in this plan was the extension of the electricity supply to cover more areas of the country. In a country where 96 per cent of the population inhabit the rural areas, rural electrification was considered essential for improving the national economy. Therefore, a series of small hydro projects were commissioned during this plan.

The government remained committed to developing a basic strategy for exploiting the country's huge hydroelectric potential to supply its need for electricity during the Fifth Plan (1975-1980); and a large share of the planned capital investment was directed towards this sector. Since the domestic demand was too small to allow economic development of large hydroelectric schemes, micro hydro and diesel installations or, along the border, imports of electricity from India were some of the strategies considered. The major objectives of power development in



this plan were: (1) to further develop hydroelectric resources to meet the increasing demand; (2) to extend electric services gradually to new areas; (3) to bring about regional balance in the production and distribution of electric power. Canada, under its programme of economic and technical assistance to Nepal, started to provide expertise for the government's Water and Power Resources Development Project. The goal of this assistance was mainly to devise an appropriate development policy and institutional framework to carry out systematic policy planning, and where possible, to assist in implementation.

The Sixth Plan (1980-1985) laid out similar development objectives as in the past but specially emphasised the conservation of natural resources and the development of water resources. The plan highlighted the government's policy of reversing the rapid deforestation process in the country which was caused by the use of firewood for energy consumption. Given the absence of other conventional indigenous energy resources, the plan recognized the need to develop the energy potential of the country's water resources. The main aims of electricity development under the plan were: (1) to produce sufficient electric power to meet the growing demands of all sectors; (2) to increase the share of electricity in domestic energy consumption with a view to reducing the share of fuelwood and halting the depletion of forests; (3) to supply the amount of power required to

electrify the transport system as a substitute for petroleum. The possibility of exporting surplus power to augment foreign exchange earnings was recognized for the first time in this plan. To ensure these goals, the planned development programme called for the establishment of: (1) a few medium-sized hydropower plants (in the range of 20 to 150 MW) to increase the capacity of the expanding national grids; (2) numerous isolated mini-hydropower stations (ranging in capacity from 40 to 1,000 kilowatts) to provide for the requirements of secondary towns, major markets and tourists centres in hill areas for which extension of the grid would be uneconomic; and (3) as a part of integrated rural development projects, a number of "micro" hydroelectric power plants (ranging in capacity from 20 to 40 kilowatt) to supply rural settlements in hill areas which have specific potential for the economic use of power. The government was concerned about building up a suitable pipeline of hydropower projects for implementation before the turn of the century and several feasibility studies for the development of medium- and large-scale hydroelectric projects were undertaken with the assistance of foreign donors.

The most recent policy of the government on the electricity sector was broadly outlined in the Seventh Plan (1985-1990). The plan called for the extension of electricity supply to rural areas, widening the coverage and distribution, and enhancing the reliability of

electricity services. The main objectives for the power sector in the plan were: (1) to meet the increasing needs of the different sections of the economy by generating power from indigenous water resources; (2) to conserve the ever decreasing forest areas; (3) to reduce the use of imported fuels by encouraging the different sections of the economy to use electricity more extensively; and (4) to expand electricity supply. Once again, the efficient exploitation of Nepal's hydroelectric potential was viewed by the government as one of Nepal's most important economic priorities, that is, to improve the availability of power in the domestic market and to enable the export of competitively priced hydropower to India. The export of power to India was referred to as Nepal's "most promising long-term foreign exchange earning option".

#### Attributes of the Electricity Sector

The key selected facets of the electricity sector are described here to indicate the size, scope and characteristics of the sector leading to its reorganization in 1985. The institutional arrangement of the industry prior to the reorganization will be covered in the next section. The quantitative indicators used in this section have been largely quoted from the various reports of the lending agencies.

## i. Generation

The strategy of the government was to build hydro and diesel power stations mainly in the Central Region because of the concentration of major loads in the Kathmandu valley, the capital city. In 1984, the total firm capacity in Nepal was 133 MW, of which 115 MW was in the Central Region. Of the total 133 MW, hydro plant accounted for 111 MW, and diesel plant for 22 MW, with the largest hydro power station (60 MW) located at Kulekhani and the largest diesel power station (16 MW) located at Hetauda, both in the Central Region and in close vicinity of Kathmandu. All hydro plants were "run-of-river" types except Kulekhani which has a live storage capacity of 73.3 million cubic meters, a catchment area of 126 sq. km. and rated head of 550 meters. During the wet season Kulekhani was operated only during the peak time; and in the event of a shortage of energy caused by abnormal low river flows, the stored water in Kulekhani reservoir was regulated and use was made of the diesel plants. It was the policy of the government to resort to load shedding rather than operate the diesel units with the intention of minimizing expenditures on imported fuels. For example, in 1980/81, when there was major load shedding, diesel units were utilized very infrequently; their capacity factor (that is, the percentage of the time they were operating) was approximately 8.5 per cent and they accounted for approximately only 8 per cent of the total generation.

There was a significant change in the plant mix by 1987 because 58 per cent (107 MW) of the total hydro capacity was installed in the period from 1982 to 1987. The hydro proportion increased from 72 per cent in 1981 to 87 per cent in 1987. It is worthy to note that the generating capacity was less than 5 MW in the early 1960's.

## ii. Transmission and Distribution

In 1984, the central grid system was confined to the Central and part of the Western Regions and consisted of 239 kilometres (km) of 132 kilovolt (kV) lines and 227 km of 66 kV lines. The Eastern Region did not form part of the grid system and depended heavily on electricity imported from India. For example, in 1983 only 6 per cent of the electricity was generated within the region, with the remaining 94 per cent being imported from India. The isolated network in this region consisted of 188 km and 76 km of 11 kV lines connected to small hydros, diesels and to supply points from India. The Mid and Far Western Regions consisted of 85 km of 33 kV and 52 km of 11 kV lines, also connected to small hydros, diesels and to supply points from India.

The government pursued a policy of extending the grid system to interconnect all the regions in the country. The Eastern Region was being interconnected

through a 283 km of 132 kV line and the project was financed by the ADB. There were also plans to extend the grid westward by erecting 45 km of 132 kV line under French assistance, and 225 km of 132 kV line under an ADB loan.

For a long time during the late seventies the demand for electricity was constrained by inadequate generation capacity and, as a result, little attention was paid to the pressing need for rehabilitation and extension of distribution systems throughout the country. Almost all the distribution systems were heavily overloaded and in a run-down condition. A Japanese bilateral aided project was carried out in Kathmandu valley to install new transformers and meters and an estimated 182 circuit-km of 11 kV lines and 273 km of 400/230 voltage lines were built or renewed.

### iii. Status of Supply and Access to Electricity

The electricity energy consumption was characterized by seasonal variations. Due to increased heating and lighting requirements in winter, the average monthly consumption in the Central Region, where domestic load was predominant, was more in winter than in summer. Of the total annual consumption, about 55 per cent was consumed during the winter months of December to May and about 45 per cent during the summer months of June to

November. The maximum demand recorded in summer was about 80 per cent of the maximum demand recorded in winter.

There were considerable variations in electricity consumption in different parts of the country. The total electricity generated in 1983 was 292 gigawatt - hours (Gwh) of which 279 was hydro, 5 Gwh diesel and 8 Gwh was generated from other plants; in addition, 63 Gwh was imported from India. About 98 per cent of hydro and 42 per cent of diesel energy was generated in the Central Region. Energy sales totalled 232 Gwh and export to India was 6 Gwh. The Central Region which had about 33 per cent of the population, accounted for 72 per cent of electricity consumption, while the Eastern, Western and the Far Western Regions, each of which accounted for 22 per cent of the population, respectively consumed 16 per cent, 6 per cent and 3 per cent. Based on a population of 15.4 (in 1984) million and assuming six persons per household, only 5 per cent of the population in Nepal had access to electricity according to the WB. The per capita production of electricity was about 16 kilo-watt hour (kWh); that compared to 164 kWh in India, 26 kWh in Bangladesh and 307 kWh in China.

The growth in the national electricity sales by consumers was highest in the industrial sector, but the domestic sector accounted for the largest share of sales. The Eastern Region was an exception because there was significant agriculture based industrial activity in the

Biratnagar town area and sales to the industrial sector accounted for more than 60 per cent of sales, compared with the national average of 33 per cent.

From 1978 the sale of electricity was suppressed because of systematic load shedding. The WB estimated that during the winter of 1981, when load shedding was at its highest, about 14 MW and 2 MW of load was shed during the peak time in the Central and Western Regions, respectively. Consequently, applications for new connections from customers were accumulating since load shedding was introduced in 1978. In 1984, there were about 20,000 applications pending, out of which 10,000 were in the Western Region and 8,000 in the Central Region.

#### iv. Rural Electrification

Rural electrification was one of the priority areas of the government because the majority of the population lived in the rural areas of the country. The five administrative regions consisted of 14 zones and 75 districts and the towns and villages in the districts were grouped together into "town panchayat" or "village panchayat". In 1984, 39 district headquarters (52%), 28 town panchayats (97%) and 137 village panchayats (5%) were electrified. Out of a population of 15.4 million, 1.77 million were living in electrified towns and



villages. Over the next five years, the government planned to electrify an additional 21 district headquarters, one town panchayat and 241 village panchayats.

v. Mini-Hydropower Project

The government supported the construction of mini-hydropower schemes to electrify district headquarters and other areas with the capacity to use electricity, to promote the expansion of cottage industries and employment opportunities, and to gradually substitute electricity for firewood. Mini-hydropower schemes were promoted in the hill villages because electrification was more difficult to achieve due to the terrain and because of the hardship faced by villages, particularly in the far western part of the country. The government planned the construction of 32 projects, eight of which were in operation by 1984 and eight more to be completed by 1987.

vi. Load Forecast and Planning for the Sector

The government was particularly concerned about the load forecast so as to plan for future generation and transmission. Four different forecasts were prepared between 1981 and 1983 (by the Electricity Department, the ADB, the WB, and the Water and Energy Resources

Development Project (WERDP), sponsored by the Canadian government). In 1984, the ADB reviewed the figures presented by these four forecasts and fixed an upper bound and a lower bound to future load growth. They expected the average rate of growth in energy generation over the next five years to be 13 per cent, declining to an average of 12 per cent over the next ten years as the system matured.

The Water and Energy Commission (WEC) under the MWR was responsible for investigating new hydro resources for the development of power. The WERDP, in association with the WEC, prepared a hydropower ranking study which identified three or four schemes for detailed study and this study was used by the government as the basis for a coordinated approach to hydroelectric development.

#### vii. System Losses

The system losses can be treated as one of the salient features of the electricity sector in Nepal because the figure was exceptionally high and was the subject of repeated negotiations between the industry and the donors and lending agencies for many years. System losses were calculated as the difference between the amount of electricity generated in Nepal and imports from India and the total sales of electricity. Although the government initiated many programmes to reduce this

figure, the system losses remained high. The government first addressed the problem of excessive system losses in the mid-1970's when the British Electricity International recommended a comprehensive set of administrative and engineering measures; and an agreement was reached on reducing the losses with the ADB. Many years later in 1984, another agreement was reached with the WB, under the Marsyangdi Hydroelectric Project, to reduce the losses from approximately 34 to 18 per cent by 1991.

The highest levels of losses were recorded in the Bagmati Zone (includes Kathmandu valley) which accounted for 56 per cent of all electricity sales in Nepal, and where losses were estimated to have reached 36 per cent in 1985. The losses were classified as technical and non-technical. The principal cause of the technical losses was the "under-investment in medium- and low-voltage distribution lines resulting in overloading and poor voltage conditions" and the non-technical losses were due to pilferage, meter reading errors, and billing errors according to the ADB (1983).

#### viii. Power Exchange with India

The power exchange began in April 1954 when Nepal and India signed an agreement to supply up to 6.8 MW of power to Nepal for use in the Eastern Region. The exchange of electricity was arranged at fifteen locations

on an ad hoc basis with the two Indian State Electricity Boards on the border, that is, Bihar and Uttar Pradesh. There was no formal contract agreement covering areas such as form of delivery, continuity of power supply, damages, billing, provisions for resolving disputes and modifying tariffs, etc. In 1985 the price charged for each unit supplied had remained unchanged since 1971. The imports of energy from India far exceeded the exports. In 1983, about 63 Gwh was imported, equivalent to about 22 per cent of energy generated in Nepal. However, with the expansion of the 132 - kV system to the Eastern Region of Nepal and the availability of additional hydro energy resulting from the commissioning of several hydroelectric plants, a significant reduction in net imports from India was experienced from 1986.

### **Institutional Arrangement of the Electricity Sector**

Electricity supply was introduced in Nepal in 1911 with a 500 kW hydro power station built to supply a few selected consumers in Kathmandu, mainly the royal palace and members of the Rana prime minister's family. It was not until 1934 that this supply was augmented with a 640 kW hydro station to meet the demands of the growing members of the aristocracy. The operation of this rudimentary system was undertaken by expatriates because there was no trained manpower in the country. It was only after the independence of the country in 1951 that the

newly formed government took responsibility for the management of the electricity sector and electricity was supplied to the members of the public as well. For a long time, electricity supply was limited and concentrated only in Kathmandu valley, except in the industrial belt in the Eastern Region where the private sector set up a few small diesel generating stations to operate their industries.

The institutional arrangement of the electricity sector starting from the early seventies when the ADB emerged as one of the main investors and initiated steps towards changing the structure will be discussed here. The institutional responsibility for the electricity sector was spread over several entities including overseeing ministries and government agencies. The MWR formulated policies and held general responsibility for coordinating and supervising all public sector activities related to electricity supply. The minister of the MWR was also the chairman of the WEC, which included representatives of all the main ministries. The WEC's responsibilities included investigation of national water and energy resources, studies of national water and energy requirements, conservation, development and utilization of water and energy resources, and the preparation and coordination of short- and long-term plans for water and energy development. In 1978, the WEC was supported by technical assistance provided by the Canadian International Development Agency (CIDA) and, in

1982, the Water and Energy Commission Secretariat was established as the technical arm of the WEC. The Ministry of Finance was responsible for coordinating and securing external sources of finance for development assistance in the industry; it was also interested in the financial implication of investment and financial operations of the electricity bodies. The National Planning Commission was responsible for national economic planning and reviewed the programmes and projects of the electricity sector, particularly in connection with the preparation of the national five-year development plans. The Public Services Commission (PSC) provided the guide-lines governing conditions of service (recruitment, promotion, disciplines, etc.) in government departments and SOE's.

The electricity industry was characterized by a group of isolated supply schemes and there were five main bodies responsible for the supply of electricity in Nepal by the mid-seventies:

- i. The Electricity Department (ED) of the MWR;
- ii. Nepal Electricity Corporation (NEC);
- iii. Eastern Electricity Corporation (EEC);
- iv. Butwal Power Company (BPC);
- v. Several Development Boards.

### i. Electricity Department

The ED was established under the MWR in the early fifties soon after the government took over the management of the electricity sector. The ED undertook the supply of electricity to the central region which was the only network at that time; and it was also responsible for power development throughout the country. It planned and constructed new generation and transmission facilities and controlled a few privately-owned facilities such as the small Butwal Power Company.

In 1978, the ED was headed by a chief engineer (of a joint secretary level in the civil service) who was appointed by a cabinet committee of His Majesty's Government (HMG) and he was directly accountable for the work of his department to the secretary of MWR. The direct subordinates of the Chief Engineer were (refer Appendix 1):

Deputy Chief Engineer:

to whom all divisional heads reported;

Administrative Officer:

covered general administrative and personnel functions;

Chief Accountant:

covered accounts, revenue and deposits, budgets and internal audit;

Planning, Design and Budgets Officer:

covered programming and design of electrical and mechanical aspects of construction projects, including budgetary provisions and reporting;

Investigations Officer:

covered civil engineering surveys and designs for hydro electric stations, including test drilling;

Procurement and Stores Officers:

covered the specifying and central procurement of most of the stores used by the ED, importing of goods, management of the central stores.

There were three regional superintending engineers (all located in the head office of the ED) who were responsible for the central, eastern and western regions of the country respectively. Their main responsibility was to cover the construction, operation and maintenance works in electricity supply installations in areas not covered by government corporations or developmental boards. Additionally there were sub-offices and depots at perhaps 20 or more locations in the different regions of the country, nearly all having engineering, accountancy and administrative functions, most of these being headed by an engineer entitled Divisional Engineer, or Sectional Engineer, or Project Engineer to whom the local staff (ranging from 20 to 60) reported. Management information in the form of monthly reports, was sent by the person in charge at each locality to senior functional officers of



the ED at the head office; many of these reports were not channelled through the relevant regional superintending engineers to whom the local persons in charge were nominally responsible.

Although the ED was initially considerably involved in the supply of electricity, it curtailed this activity gradually over the years. The ED operated the Sunkoshi hydropower station with a capacity of 10 MW and other smaller government-owned facilities, and distributed electricity in western Nepal as well as in fifteen newly electrified towns in 1975. Outside the network supplied by the NEC, the ED extended supply to numerous townships through the installation of mini-hydro plants and small diesel units, the extension of 33 kV transmission lines, and through exchange of power with India along the southern border. In 1978, the ED handed over the last of the facilities operated by it in the western, central and eastern regions to the NEC and EEC. By the early eighties, most of the supply of electricity in the national grid was handed over to the NEC, and the ED retained and operated a few projects in the mid and far western regions. It continued to be responsible for the planning and construction of generation and transmission projects, and the facilities constructed by it were transferred to a government corporation for commercial operation.

In 1984, there were some 900 staff in the ED including 200 engineers of whom about 150 were on secondment to other organizations in the electricity sector, mostly in various development boards. All the employees of ED were civil servants, on a permanent or temporary basis, and the professionals (known as officers) were classified as gazetted and the clerical as non-gazetted.

ii. Nepal Electricity Corporation

The NEC was established in August, 1962 under the NEC Act because it was increasingly difficult to undertake the commercial and selling functions of electricity in the northern part of the Central Region under the rules and regulations guiding the ED. Hence a primary reason for the establishment of the NEC was to free the management of the supply system from the constraints characteristic of government bureaucracy. As a separate public entity, the NEC was expected to be more flexible in the operation and maintenance of electrical services to the various types of consumers. As a corporate, self-governing body, it was able to receive, possess and transfer movable and immovable property, issue bonds and debentures, and accept loans and subsidy grants.

The key responsibilities of the NEC in accordance to its charter were:

- (a). to generate and distribute electricity in a secured, efficient, economic and orderly fashion, in the areas approved by HMG/Nepal;
- (b). to endeavour to develop the electricity distribution system in a way that might yield greater benefit to its consumers at a reasonable price;
- (c). to promote the generation and distribution of electricity with a view to fostering industrial development and economic welfare of the people;
- (d). to determine and realise the prices, charges and other dues for electricity services.

The NEC operated and maintained power stations, transmission lines and other facilities transferred to its ownership by the ED on agreed valuation. However, it had very little contact with the ED during planning, design and construction of new works even though the facilities were subsequently transferred to it for operation and maintenance. It also financed, designed and constructed modest reinforcements to its distribution network and extended supplies to new consumers; and handled relations with its consumers and with consumer representative bodies such as the local municipalities.

The NEC as a government-owned SOE was sponsored by the MWR and was headed by a civil servant executive

chairman who was the chairman of the board of directors and also the general manager. The executive chairman was appointed by the government and was usually selected amongst the senior civil servants of the MWR or the ED. The board consisted of other five members appointed by the government, of which four were civil servants and one a representative of the Kathmandu City Council. The chief engineer and another staff member of the ED were included as members of the board. No internal staff of the NEC were eligible to be appointed as members of the board because they were not civil servants. A senior staff member of the NEC was appointed as the general manager in 1981 but he was not included in the board and the chairmanship was retained by the secretary of the MWR.

The organization design of NEC consisted of four departments and the following senior management staff of the corporation were directly accountable to the executive chairman:

Manager - Transmission and Distribution Department:

covered construction of transmission and distribution system, and maintenance of these systems;

Manager - Planning and Generation Department:

covered generation operations, system control, planning of transmission and distribution systems.

Manager - Administrative and Commercial Department:

covered general administration, personnel, materials' procurement, and commercial functions.

Manager - Finance and Economic Analysis Department:

covered accounts division, revenue division, and internal audit.

There were four branch offices which controlled operations outside Kathmandu. An organization chart is illustrated in Appendix 2. There were no detailed and up-to-date job descriptions for the staff.

By 1979, the NEC was the largest and most developed electricity supply scheme in the country. Power was supplied by five hydropower and four diesel power stations with a total installed capacity of 35 MW and 3.7 MW, respectively. The transmission was at four voltage levels: 132 kV, 66 kV, 33 kV and 11 kV, with a total line length of about 450 kilometres. Later on, the NEC took over the operations in the remaining part of the central region and in some parts of the western regions. In 1981, the Butwal Power Company in western Nepal was merged into the NEC by the government and a year later the Eastern Electricity Corporation was also merged. Consequently, the NEC represented the largest electricity supply network in the country covering all of the central and eastern regions and most of the western regions. It had a total staff of 3,155 in 1983 of whom 58 were qualified engineers.

The performance of the NEC was of special importance because it not only represented the largest supply system

but it was the main source of revenue for the sector (through the sale of electricity). An examination of a few of the operating results of the NEC from 1979 to 1983 (during which negotiations were conducted with the lending agencies on the reorganization) reveal the depressed financial results. The system losses in the five years ranged between 28 to 32 per cent and there was no significant improvement in spite of various programmes initiated. The NEC sustained an operating loss in 1979 and earned rate of returns of 3.5, 1.1, 0.2, and 1.5 percent during 1980 to 1983 respectively. The improvement in 1980 was a result of the discontinuity of the royalty surcharge by the government and a 30 per cent tariff increase. In spite of these poor operating results, the NEC's finance was still manageable because it had very little debt, a volume of cash flow just sufficient to finance modest distribution expansion, and no call on earnings to finance generation and transmission plants. The addition of generation and transmission plants was provided through bilateral grants and when the assets were transferred to NEC, they were recorded as equity. However, this began to change in the early 1980's when the capital expansion financed by credits and loans were gradually transferred to it for operation. The proportion of debt began to rise sharply.

The NEC, like many other state-owned enterprises in Nepal, was created to allow more autonomy of decision-making and operations than was possible within a

government department. But in practice, it was subject to influence or regulation by a number of agencies of the civil service such as the Ministry of Finance, National Planning Commission, PSC, etc. and, in addition, control and domination by the MWR and ED in the composition of the board and daily operation. Very few engineers from the NEC were taken on in secondment to work on construction projects. When major electricity facilities were handed over to the NEC, a few gazetted ED engineers were seconded to the NEC for a short transitional period and only the non-gazetted ED project staff were permanently transferred. The civil servants preferred to stay in the ED where there were more construction activities and other attractions.

### iii. Eastern Electricity Corporation

The EEC was established by the government in 1974 under the NEC Act to take over small private entities in the eastern part of the country and to manage the eastern Nepal power system. This small system consisted of a 33 kV supply system around the industrial town of Biratnagar and three diesel plants with an installed capacity of 3.7 MW and a mini-hydro plant with an installed capacity of 240 kW. It mainly distributed electricity imported from India, with its own diesel plants maintained mostly on a standby basis. In 1978, the EEC supplied a total of 18.5 GWh of electricity to 9,594 consumers and 64 per cent of

the total sales was consumed by 356 industrial clients. The EEC area included a major industrial centre of the country and more than 50 per cent of the industrial demand was accounted for by two jute mills. Similar to the pattern in the Central Region, 75 per cent of the domestic customers consumed less than 100 kWh a month.

The EEC was headed by a board of directors with a part-time chairman from the ED (usually of an under secretary level). The chairman combined this job with that of superintending engineer for the Eastern Region and he was stationed in Kathmandu. The NEC owned 25 per cent equity of the EEC and the general manager was a NEC staff on secondment and was included as a member of the board of directors. The other board members were the local representative of the National Planning Commission, the HMG Factory Inspector for the region, and representatives of the town council and the NEC.

There were four divisions in the EEC: Administration, Procurement and Stores; Finance; Planning and Design; and Generation, System Operation and Maintenance; (the organization chart is included in Appendix 3). In May 1980, the EEC had a total staff of 441, of whom only eleven were qualified engineers, the rest being technical and clerical staff. Although the EEC, like the NEC, was involved in the sale of electricity and was expected to generate revenue, its performance remained poor from the very start,



deteriorating between 1976 and 1980 because of: (i) the transfer of areas formerly administered by the ED (which were all operating at a loss) being handed over to the EEC in 1977; (ii) increased use of standby diesel generation as a result of frequent power supply interruption from the power station in India; (iii) the poor condition of the distribution system. As stated earlier, the EEC was merged into the NEC by the government in June 1982.

iv. Butwal Power Company

The BPC was an isolated, very small supply system in the Western Region with an installed capacity of 550 kW (run-off-river type). The government owned almost half of the equity and the chief engineer of the ED was the chairman of the company. The NEC also had a nominal shareholding in the BPC. The supply system covered only six square miles and was operated by a total staff of 28. Due to its size, it was managed without a formal subordinate structure. An engineer supervised the operation as the manager of the BPC; and it was merged into the NEC in 1981.

## v. Development Boards

The government on occasions started to set up autonomous development boards under the Development Boards Act to execute the construction of large projects in the mid-seventies. The largest construction works authorised in the electricity sector were managed by an autonomous ad-hoc development board set up under statute for that purpose; the board members being politicians and civil servants (including representatives from the ED and NEC), the project-in-charge being a board member and secretary to the board on secondment from the ED, and the rest of the staff being civil servants on secondment or recruited by the board. The board was conferred certain powers and duties upon it by the Act, and one of its initial tasks was to draft proposals for bye-laws and regulations which were necessary to enable it to fulfil its functions. The construction of some of the small power stations was managed by a statutory development board with an ED staff member as the chairman and representatives from other ministries, the preparatory survey and design work having been carried out by the ED. A few development projects were also set up under the direct management of the donor countries which were financing the project, for example, the Gandak Hydro-Electric Station built by India.

The Small Hydel Development Board (which looked after all mini-hydropower projects in the kingdom) was

one of the first boards to be set up to construct mini-hydropower projects in the hills in November 1976. Later on, it was also made responsible for the operation of mini-power plants in the hill areas. The Transmission Development Board (which looked after the French-financed section of the ADB's fourth power project) was established to construct large transmission lines. Similarly, various development boards were created for the construction of large generation projects, for example, the Kulekhani Development Board and the Marsyangdi Development Board. The members of these boards included the minister of the MWR and civil servants from various ministries, as well as the secretary of the MWR and the chief engineer of the ED. The project managers of the boards were senior engineers seconded from the ED, they were paid by the boards, were accountable to them and were also members and secretaries of the boards. Other staff were mostly seconded from the ED (but very few from the NEC). The seconded staff were attached to the professional staff of the expatriate consultants and contractors for the projects. The development boards generally relied heavily on expatriate experts to supervise the execution of projects, considering the lack of experience of the Nepalese with large projects. The chiefs of both the ED and NEC and their supporting staff held no executive authority in relation to these projects.

## Relationship Between the Electricity Supply Bodies and the Government

The various bodies (a government department and state-owned enterprises) that constituted the electricity industry were closely linked with the government because their participation and performance were constantly influenced by the numerous government agencies. The ED was part of the civil service bureaucracy and its operation was guided by various rules and regulations of the civil service even though it was undertaking activities related to a public utility. The NEC (now merged with the EEC and BPC) belonged to the universe of state-owned enterprises operating in the country and hence was placed within the network of established relationships for similar bodies. These two principal entities were related to other government agencies but there were marked differences in some of the key operational areas, especially related to personnel, organization and finance.

### i. Remuneration

The Pay Commission which was attached to the Ministry of Finance was the body responsible for recommending to the Cabinet Secretariat the range of pay scales which should be applied to the main range of civil service posts, from that of ministerial secretary to the

lowest job of an office peon. All staff of the ED adhered to the salary scale prescribed by the government and there was no flexibility to change these rules whatsoever. Even when they were seconded to the projects and their work involved more risks and responsibilities, they still earned the same salary. The only monetary incentives provided were the various allowances.

The remuneration scale in SOE's was determined by the respective board of directors in consultation with the PSC. The government initially allowed the salary scale of the SOE's to be higher than that of the civil service because it accepted that there were differences in their nature of work and responsibilities. The salary scale of SOE's was allowed to be adjusted to some extent in accordance to the revenue generation and income of the individual enterprise - the NEC at one time fixed the salary scale of the top management grossly in excess of civil service rates. The policy of the government changed during the late seventies and the PSC recommended that salaries in SOE's should not differ from those in the civil service by more than 5 to 15 per cent. The reasons advanced for this move were that there would be difficulty in attracting the best qualified recruits to the civil service and that established civil servants would resign if differential in salary became too great. This policy was changed again in the mid eighties and the salary scale in the civil service and SOE's was kept at

par to avoid any kind of differences in the two public services.

ii. Personnel Procedures

The key body which influenced the appointments, promotion, transfer and dismissal of civil servants of all grades was the PSC. Under the constitution of the country, the PSC was to be consulted on all key matters related to personnel, such as legal matters relating to conditions of civil service, general principles on appointments and promotions, suitability of candidates for transfer or promotion from one category to another category of civil service, and on matters related to departmental punishments for gazetted civil servants.

The recruitment of engineers for the ED was done by the PSC and usually there was a representative of the ED in the interviewing panel. All recruitment of professionals was done at the officer grade which was the only entry point. Above this grade, appointments to under and joint secretary posts were done by promotion from within the civil service and the PSC recommended such promotions after reviewing the records of the candidates. The promotion committee was chaired by the chairman of the PSC. The most senior posts in the civil service were called the "selection grades" and for these, the promotion committee selected a panel of candidates who were referred to the cabinet for final selection. The

final selection was normally done on the basis of confidential consultation between the royal palace and the government.

The PSC was not involved in the selection of board members or staff of SOE's. The chairman of the electricity enterprise (always a civil servant) was appointed by a special committee of the cabinet and the chairman, in turn, was consulted on the appointment of other board members. The PSC also laid down compulsory guide-lines for the selection, appointment and promotion of staff and determined the appropriate salary range to be applied to each post. These guide-lines included technical qualifications, work experience, age, confidential management assessment, etc. and specified a mandatory point system for assessment. The SOE's were monitored periodically by the staff of the PSC to ensure that they were following these guide-lines. The chairman of an SOE was empowered to select staff for appointment and to promote the regular employees. In the NEC, a Promotion and Appointment Committee headed by the chairman carried out these tasks.

### iii. Structure and Staffing

The Administrative Management Department of the government was responsible for authorising and determining the structure and staffing of all units of

the civil service (including the ED). They carried out organization and management studies, approved the creation of new posts, designed staff trees, wrote job descriptions and determined the appropriate levels of pay within the pay scales approved by the Pay Commission. The recommendations of the Administrative Management Department were sent to the Ministry of Finance for approval prior to their being released to the department being studied. Approved posts were then filled using the channels of the PSC. Therefore, applications for establishing new units in the ED or the staffing of the development boards or for re-arranging ED divisions using additional staff, were first placed before a special committee which comprised the Secretary of MWR, a representative of the Administrative Management Department and a representative of Ministry of Finance. After the committee supported the application, it was sent formally to the Administrative Management Department for further examination and approval.

Under the Nepal Electricity Corporation Act, the NEC and EEC were self-governing bodies and they could formulate and determine their own plans and decide what resources, including manpower, they required. Thus they were free to decide what their own forms of organization and their staffing levels should be. However, as stated earlier, they had to follow the non-discretionary guidelines prescribed by the PSC on staffing.



iv. Finance and Work Planning:

The revenue earned from the sale of electricity by the ED was transferred to the Ministry of Finance, while finance for capital expenditure and expenditure on operation and maintenance was obtained by the annual budget procedure. The ED submitted to the National Planning Commission its proposal for the work to be carried out in the next fiscal year together with an estimated budget. Budgetary provisions which were then approved as being consistent with the national plan were submitted to the Ministry of Finance jointly by the MWR and the Planning Commission. The budget which was finally agreed was debated by the parliament in the mid-year budget sessions. Finance for foreign aided projects was channelled through the Foreign Aid Division of the Ministry of Finance but was released through the Comptroller-General's Division. The various development boards followed the same procedures as the ED for approval of their work plans and budgets. However, to avoid the delay and cumbersome procedures of the bureaucracy, the foreign aid agencies frequently paid the contractors directly, on behalf of the development board.

The NEC planned and constructed only transmission and distribution reinforcements and supplies to new consumers. The NEC's board was authorised to determine the nature and level of resources needed for both construction and operational works, plan their work, and

settle their budgets financed out of revenue subject to the approval of its parent ministry, the MWR. The NPC was informed of NEC's plans so that these could be included in the national plan.

### **Participation of the Lending Agencies**

#### **i. Lending Activities**

Nepal's electric power system began to expand significantly in 1977 as a result of the government's decision to increase substantially its capital investment in the electricity sector and this development necessitated substantial external financial and technical assistance. The cost of building power infrastructure in Nepal has been high, due to the remoteness of the country, its difficult terrain and geological conditions, poor communications network, scattered load centres and lengthy high voltage transmission lines relative to the size of the loads. In addition, the unit size of plants has been relatively small, about 30 to 70 MW, and thus Nepal has not been able to achieve economies of scale. In spite of these difficulties, the government decided that the efficient development of power infrastructure was one of the nation's most important economic priorities. This required a major effort in mobilizing both foreign exchange and local funds.

The development of the electricity sector has been financed largely through concessional external aid made available to the government. The funds have been "relent" to the NEC at rates of interest ranging from 8.5 to 12 per cent or provided as grants in the form of government equity. Bilateral donors have included Canada, China, the Federal Republic of Germany, India, Japan, Kuwait and Saudi Arabia; the main multilateral sources were the ADB and the WB (IDA). An analysis of sources of finances for the development of the sector conducted by the WB (for the period 1981-1985) showed that long-term foreign loans covered 49 per cent of the capital requirements, foreign exchange grants provided 34 per cent, and government equity contributions 13 per cent, while net internal cash generation only contributed 4 per cent. The annual public sector capital expenditure in the electricity sector for the same period (the total cumulative expenditure) amounted to US \$ 145 million and accounted for 9 per cent of the government's annual developmental expenditures, according to the WB. In the early 1980's, investment resources were concentrated on building new hydropower stations to overcome the chronic power shortages on high voltage transmission facilities. Investment in distribution facilities was badly neglected, causing them to be generally overloaded. This was one of the major causes for the continuing unsatisfactory levels of system losses.

The main source of funds has been the loans arranged with the two lending agencies, the ADB and WB - the ADB mainly financing the construction of the transmission and distribution network, and the WB providing investment for the development of generation projects. In addition, the two banks have mobilized international finance for large development projects and they also acted as the executing agency for donors, aid agencies and other lenders. For example, they acted as executing agency in various United Nations Development Programme (UNDP)-financed projects such as feasibility studies, engineering consultancy, etc.

The lending programme of the ADB in the electricity sector was initiated in 1972 when the government approached the bank for a US \$2.7 million loan to finance the construction of a 132 kV power transmission line to link the Gandak Power Station to the central Nepal power system. Additional loans from the ADB were taken in the subsequent years as the government initiated various projects for extending the distribution of electricity to different regions of the country, as stipulated in the different national plans (discussed earlier). Between 1979 and 1984, the ADB approved and sanctioned four more power projects proposed by the government and by the end of 1986 it had provided eight loans for seven projects for a total amount of US \$103.4 million. Three of these projects were completed by 1984 and all of them were associated with the expansion of the transmission and

distribution system comprising 132 kV line connecting major cities into the national network and associated sub-transmission and distribution work. All the major projects related to the expansion of the transmission and distribution system have been financed by the ADB since its participation in the electricity sector.

The WB's involvement in the electricity sector began in 1978 when it provided a loan of US \$40.8 million for the construction of the Kulekhani Hydroelectric Power Project (60 MW). The total project cost was US \$120 million and the financing was arranged through a group of co-lenders consisting of the World Bank (IDA), Overseas Economic Cooperation Fund (Japan), Kuwait Fund, OPEC, EEC, and the UNDP. This was the largest project undertaken in Nepal at that time and it approximately doubled the generating capacity in the country. The second loan from the WB was approved in 1984 when it agreed to a US \$107 million investment to finance the construction of the Marsyangdi Hydroelectric Power Project. This was a run-of-river hydroelectric power project, with an installed capacity of 69 MW, located on the Marsyangdi River. The WB was expected to play an equally influential role in the future expansion of the industry when the government planned to go for larger generation projects so as to be able to export surplus power to India. The WB was capable of mobilizing international resources and meeting the future investment requirements of large projects.

## ii. Reorganization Initiatives

The issue of the reorganization of the electricity industry was raised by the ADB mission team which came to appraise the loan requested by the government for financing the construction of a 132 kV power transmission line to link Gandak Power Station to the central Nepal power system (the second power project) in 1975. The ADB team agreed that the initial organization of the electricity sector in which a government department (the ED) was responsible for the development and operation of electricity supply facilities was adequate as the system was very small. The team also appreciated that the establishment of the NEC in the early 1960's was a recognition by the government of the growing size of the central system. However, the electricity sector in central Nepal was still rapidly growing and required substantial investment in the future and, therefore, the ADB team envisaged that a further "reorganization" was essential and appropriate. It was indicated to the team by the officials in the ED that considerations were being given to the possibility of converting the ED into a separate SOE retaining the same planning and construction responsibilities, but acting as the bulk producer and seller of electricity to the other SOE's, namely the NEC, EEC, or other SOE's that might be set up in the future. The other SOE's were to serve as retailers or distribution utilities. The ADB team's main concern was that all the bodies involved in the electricity sector

should operate in accordance with "sound utility practices". This was not possible in the case of the ED, a government department, and the team explicitly mentioned this point in their report (ADB, 1975):

"The ED is sound on technical matters and its staff is able to conceive new projects, supervise construction works and to manage its limited operation and maintenance obligations. As a government department, its financial management practices, however, are poor. They consist of accounting for revenue derived from sales, which is transferred directly to the Ministry of Finance, while operation and maintenance expenditures are governed by yearly budget procedures. ED does not have a proper framework for financial and managerial planning of long-term operational development of the country's power sector."

The ADB was concerned about the accounting system of the ED even for their first loan in 1973 and they provided the services of a financial expert to make changes. This assistance only achieved limited results because it was neither able to introduce a financial planning and control system nor could a financial management system be organized as envisaged under the expert's terms of reference. Therefore, during the appraisal of the loan for the second project, the team stated that they saw very little scope for any form of similar technical assistance before the completion of a "thorough study of the institutional arrangements of the power sector".

An agreement was reached between the ADB and the government of Nepal that the implications of the various

alternatives should be carefully examined before embarking on any reorganization of the electricity sector. Hence an "institutional study" was expected to determine the most appropriate institutional basis for the operation and future expansion of the system as a whole from the stand-point of giving the sector and the entity or entities running it the necessary "responsibility" and "autonomy" in the conduct of operations in accordance with "sound public utility practices". The ADB agreed to provide a technical assistance grant for the study at the recommendation of the appraisal team because they argued that the study had an "institution-building" character; this implied that there was no financial liability on the part of the government of Nepal.

The institutional study was to be undertaken in two phases and it was planned that two consulting firms would assist and provide guidance to the government: an engineering consulting firm with special experience in institutional matters, and a consulting firm with special experience in accounting matters and financial management. The relationship of both firms was to be predominantly with the ED which was to be the executing agency for the studies. In the first phase, an institutional/management expert was to review the existing organization, propose the most suitable future organization and develop a comprehensive implementation scheme for the establishment of the organizational set up



to be selected by the government. He would also advise on improvement of the NEC's existing organization and financial management. At the same time, a distribution system engineering expert was to analyze the causes of losses in electricity production and prepare a programme aimed at reducing the losses. During the second phase of the institutional study, experts in the field of power facility valuation and accounting/financial experts were to prepare the required managerial and financial framework. The experts would assist the government in the identification and valuation of all fixed assets, and develop an appropriate commercial accounting system for the entity or entities to be established as a result of the first phase. In addition, the financial expert was to assist in the preparation of staff training and manuals, and if required, participate in the initial implementation of system and procedures proposed.

The first phase of the institutional study was expected to have produced draft recommendations by the end of 1976 and based on these being accepted by the government, a detailed plan and timetable for their implementation was to be developed. The first phase was expected to be completed by the end of 1977. The second phase was to be initiated as soon as it was clear as to what kind of organization was likely to be adopted and it was expected to be completed within one year. The entire institutional study and the change was targeted to be complete by mid-1978.

The first phase of the institutional study was conducted by British Electricity International (BEI) in accordance with the terms of reference agreed between the ADB and the government. However, the terms of reference for the second phase of the study was redefined during the appraisal of the fourth power project by the ADB (in 1980) because the ED proposed a counter recommendation which called for the creation of two utilities (against the one utility proposal of BEI). According to the agreement finally reached, the consultants were hired for the second phase of the institutional study "to assist in implementing the reorganization" of the electricity sector and their work was to be carried out in three stages:

Stage I: Initial institutional and organizational review (6 - 8 weeks);

Stage II: Organizational design (6 months);

Stage III: Development and implementation.

The organizational review was to involve a detailed examination of the existing institutional relationships in the electricity industry and the options for organization structure and its various functions. This review was to include options for the institutional framework; objectives and statutory responsibilities for the proposed authority or authorities; formal institutional relationship and interaction with other government agencies; and options for the organization

structure of the proposed arrangements. The design stage of the study was to involve detailed design of organizational and manpower requirements, assessment of financial routines and future requirements, detailed examination of financial and management information requirements and outlines of systems and procedures for personnel administration, financial administration and operation and maintenance and material control. Following discussion on the reports of the second stage, work was to begin on the development and implementation of the agreed proposals, culminating in the founding of the new institutional body. The second phase of the institutional study was undertaken by Coopers and Lybrand (C&L) of the UK.

The WB as the other leading lending agency was not directly involved in any of the initiatives undertaken by the ADB towards the financing of the institutional study or in interactions with the consultants. However, the WB was fully informed about the actions of the ADB and they came forward to support the latter's initiative during the financing of the Marsyangdi Hydroelectric Power Project in 1984. At that stage, the government had already made commitments on the reorganization but the implementation was progressing very slowly and behind schedule. The actions initiated by the WB supported and expedited the reorganization process.

## **Planned Changes of the Consultants**

### **i. British Electricity International**

BEI completed their study in October, 1978 and submitted their proposals for the reorganization of the electricity sector. They identified various deficiencies in the institutional structure, namely: (a) there was a multiplicity of fragmented bodies responsible for the planning, construction and operation of a relatively small power supply scheme; (b) excessive time and effort were needed to coordinate activities, and often there was a lack of coordination; (c) engineers were frequently switched from job to job and their experience was, therefore, not properly utilized; (d) operational experience was not sufficiently utilized for new constructions; (e) there was no overall manpower planning; and (f) long-term system planning was limited, resulting in inadequate overall long-term financial planning in the ED, NEC and EEC. Other deficiencies identified by BEI in the institutional arrangement included: inadequate scope for career development at the senior management level because of limited responsibility of the various individual bodies; lengthy delays in decision-making and project implementation because of confused lines of communications; and restricted capability of the individual bodies to mobilize domestic financial resources for the development of the system

because of their individual lack of financial accountability.

BEI weighed the merits and demerits of a structure which would comprise two public enterprises, one being an electricity generating corporation, and the other a corporation engaged in the transmission, distribution and marketing of electricity. They assessed the possibility of ED retaining responsibility solely for the construction of the generating stations, with a national electricity corporation having the duties of operating all completed electricity producing and distributing facilities, extending the distribution network, and marketing electricity. They concluded that any of the forms of organization considered above or others not mentioned by them, could be operated in the industry; but "taking fully into account the Nepalese environment", they recommended that a single body in the form of a state-owned enterprise (SOE) should be established to perform the functions throughout the whole country which was being carried out by a multiplicity of bodies. They argued that the tasks assigned to the ED, NEC, EEC and three Development Boards were, when combined, of a magnitude and complexity which would enable them to be carried out under a single management building upon the expertise gained so far.

The proposed SOE (referred to as the Electricity Authority by BEI) was to be developed initially within

the NEC Act of 1962 and was to be headed by a board of not less than four, and not more than eight members, of whom one was to be appointed as the Executive Chairman and one as Deputy Chairman/Chief General Manager. BEI recommended that the board should be encouraged to adopt a reasonably commercial attitude towards its operation; and if civil servants were appointed to the board, they should resign from the civil service. They suggested that it would be an advantage to the government if the executive chairman was not a civil servant because a high-calibre person from outside the ranks of the civil service could adopt a "healthily independent commercial and autonomous attitude" when presenting the views of his board to high-ranking civil servants.

An organization structure with a central head office in Kathmandu and four regional offices to manage the activities in the development regions of the country was proposed:

"The tasks and staff of the Authority should be divided into two echelons, namely, a Head Office echelon and a Regional echelon. The Head Office echelon at Kathmandu should be structured to subdivide the principal tasks of the proposed authority into expert functional departments, each headed by a chief Chief Functional Officer, directly accountable to the Deputy Chairman/Chief General Manager. The Regional echelon should comprise four regional offices, each headed by a regional general manager, and each having three sections covering the engineering, accountancy and commercial functions.....Relationships (between key officers) should be governed by a formal description of working inter-relationships."

The management structure of the Authority was to incorporate management control and systems which would permit greater delegation of authority, and would place a level of responsible management close to the consumer. The growing number of tasks of the Authority were to be broken down into more specialist sub-divisions, so that each sector would receive more concentrated attention. In addition, it was recommended that "the structure, with its lines of policy formation and lines of command, must be well defined, so that managers can operate with confidence within its framework. Responsibilities to be attached to individual management posts must be stated, and delegated authority be quantified, where possible, to promote personal accountability".

BEI highlighted the advantages of a single authority for the employees, the government of Nepal, and for electricity consumers. The top management would consist of a body of persons trained and experienced in all aspects of electricity supply, committed to a career in Nepal's most capital-intensive industry, and with a high level of specialist expertise. The top management group would acquire that "faculty of collective judgement which is developed by a team of senior managers who have become accustomed to working together under a single leadership towards common objectives". The staff of the Authority would have a more "rational" job structure on which to build a career, with functional expertise or general management paths to follow. They would have a permanent

and experienced management to guide them and assess their progress, and a greater choice of locality in which to live and work. The government would benefit because many tasks of coordination would be transferred from the civil service to the Authority's internal management channels where "choices of action could more readily be assessed, and optimal decisions be made more readily". For example, when seeking to make commercial agreements with the government of India, the government could draw on the appropriate expertise which an all-purpose Authority would have developed in the fields of economic analysis, purchasing and technological negotiations. The international aid and lending agencies would benefit because their projects would be handled by an Authority with continuity of service in top management. The consumers of electricity would benefit in that the regional general managers and their staff would have delegated power to make decisions locally, and would be backed by a high-calibre central management team. The local situation would be reported to the head office on a detailed and regular basis.

BEI finally proposed the establishment of a Working Party to lead the process of reorganization. The Working Party would comprise the heads of all the concerned existing bodies in the sector and the designated key personnel of the Authority; and their main task would be to prepare proposals and a detailed programming for the re-structuring:



"The proposals should include method and time of making appointments to the top management posts in order that the top managers can influence the selection of their direct subordinates. The programme should allow for determining and execution of necessary legal provisions, the method of determining remuneration of senior management posts, the initial allocation of premises, equipment and other resources. The responsibilities to be transferred at all levels should be stated, and recommendations should be made as to which posts in the new structure would be personally accountable for the work involved in an orderly transition to the new structure."

ii. Coopers and Lybrand

The consultants from C&L initially undertook an institutional review which involved a detailed examination and an analysis of the existing institutions and their functions, following which they submitted their recommendation for a new institutional framework. After the government's decision on the reorganization and creation of a single authority, C&L developed a detailed organizational design and various management systems to implement the Authority. The key aspects of their planned changes and prescriptions will be discussed here.

C&L examined the strengths and weaknesses of five main options as regards the future structure of the sector:

(a) a "minimum change" option essentially preserving the current organization but with some tidying up;

- (b) a "zonal" option in which some electricity supply functions (including distribution) were, so far as possible, handed over to the local municipalities;
- (c) a "one body" structure with one operational body responsible for construction, generation, transmission and customer service (but the government responsible for certain key policy decisions);
- (d) a "two body" structure with two utilities, one for generation and transmission, the other for distribution and customer service (again with the government responsible for certain key policy decisions);
- (e) a "hybrid" structure with one board controlling two operational bodies.

They recommended a "hybrid" structure - the creation of a Nepal National Electricity Board with wide powers over planning, disbursement and monitoring of aid/lending agency funds and all staff; supported by two executive arms, one for generation and transmission, the Nepal Electricity Generation and Transmission Agency (NEGA) and the other for distribution and customer services, the Nepal Electricity Distribution and Customer Service Agency (NEDA) (refer to Appendix 4). A single controlling board with final responsibility for "good management" of the sector was proposed because C&L argued that two totally independent public utilities with separate controlling boards would not in practice be able to coordinate their activities properly. Similarly, with a single board, resource allocation decisions and planning

could be carried out in the interests of the sector as a whole. The separation of the two activities was also justified because they argued that management and work involved in constructing major power stations was clearly different from what was involved in the day-to-day running of a distribution system. The tasks of designing and building power stations and of constructing and operating the transmission system were essentially carried out at a national level, whereas the work of distribution and customer services needed to be organized on a geographical basis and the management needed to get closer to the public.

Since the board was the principal policy making body, C&L suggested various recommendations concerning its membership. The chairman was to play a key role in maintaining the board's independence as well as providing a "strong and distinguished leadership" in giving a "dynamic and commercial thrust" to the public industry's work. Therefore, they suggested that the chairman should be appropriately appointed by the King to reflect the vital importance of the sector to the country and to give the highest status to the new public corporation. The other members suggested for the board were the chief executives of the two agencies, the secretaries of the ministries of Water Resources and Finance and possibly the National Planning Commission, and a maximum of three members chosen for their commercial experience and to represent customer interest.

Only the key functional activities to be undertaken by the two agencies were identified at this stage and the task of preparing detailed organization designs were kept for stage two of their consultancy assignment. Three divisions were recommended for the NEGA: project design and development; construction and operations; services and administration. As for organizing the activities of the NEDA on a geographical basis, C&L preferred to treat the three Western Developmental Regions as one area, the Kathmandu valley as a second, the Eastern Region as a third, and the rest of the Central Region as a fourth. All these recommendations were at a very rudimentary stage because they were to be further developed after the government's decision on the institutional arrangement.

The second and third stages of the institutional study developed specific recommendations for the implementation of the organizational design of the Nepal Electricity Authority (NEA). C&L's starting point was the structure for the NEA outlined in the Memorandum of Understanding signed by the government and the ADB on 19 November, 1982. Their main areas of concern were: the new legislation required for the establishment of the NEA; the internal organizational structure of the directorates in the NEA (including job descriptions for the key posts); administrative and personnel systems (including arrangements for staff transfer); design of financial planning and accounting system for the NEA; and inspection and revaluation of the main fixed assets which

the NEA was to take over from the existing bodies. The last two changes have not been analysed in this study because they consisted of introducing commercial accounting in place of government accounting in units operated by the ED and preparing consolidated balance sheets for the entire sector. These activities proceeded smoothly because it was widely recognized that the accounting system for the NEA needed to be developed along commercial principles (as in the NEC) and these changes did not affect the majority of staff. Furthermore, the new accounting system was to be introduced over a period of several years and the staff were more concerned about changes that affected their immediate interest and positions.

(a) Legislation

The main features of the legislation can be classified under four sections: responsibilities and powers of the NEA and powers reserved to HMG; composition of the board of the NEA; financial arrangements for the NEA; and other matters. The principal objective of C&L was to operate the Authority as a "commercial" public utility and this was clearly expressed in two sections of the legislation, viz. the division of responsibilities and powers between the NEA and HMG, and the composition of the board.

C&L attempted to spell out a clear framework for the relationship between HMG and the NEA in the draft legislation. First, it laid down the NEA's functional responsibility for providing a supply of electricity to those consumers who were willing to meet the costs involved, or in respect of whose consumption HMG wished to make special funds available. Second, it imposed on the NEA the requirement to report regularly to HMG on key aspects of its actual performance and future plans, so that both could be viewed in the light of the country's overall development effort. At the same time, it made clear that the prime responsibility for electricity supply placed on the NEA implied a considerable measure of independence in planning and controlling its own operation. Third, it reserved certain powers to HMG, specifically including power to approve (but not to formulate) the NEA's broad strategy, its foreign borrowing and its tariff proposals, as well as power to appoint or to dismiss the members of the board. More generally, the ultimate power to issue directives to the NEA was reserved for HMG, but the legislation also provided that the commercial implications of such directives for the NEA's performance was made public.

The legislation attempted to set out as precisely as possible those powers which were reserved to HMG and it empowered HMG to issue directives in the following areas:

- to operate any service or to perform any function, with or without prescribing any particular area;
- to stop performing any function performed by the Authority in any particular area, or to make any changes therein, or to discontinue it entirely; or
- to refrain from doing anything which the Authority was about to do.

C&L generally agreed that such a range of power should be exercised by HMG but they also anticipated that such power might be used to direct the Authority to do something which was "commercially unprofitable". Therefore, they suggested two balancing safeguards:

- the full terms of any HMG directives should be published in the Nepal Gazette;
- the board should have the right to pass a resolution communicating to HMG its view that a directive was contrary to the Authority's commercial interest, giving an estimate of the extra costs involved . The board should also have the right to ensure that the text of such a resolution be made public through its incorporation in the Authority's annual report.

C&L recommended a board consisting of about eleven members including:

- a chairman, on a part-time basis and supported by a full-time vice-chairman;

- four directors responsible for: generation and transmission, distribution and customer services, rural electrification, and planning and finance; and
- other members determined by HMG.

They considered the appointment of chairman and vice-chairman as "crucial" and hence made the following recommendations:

"We recognise that on the basis of past practice HMG might well appoint as chairman a current minister or secretary - almost on an ex-officio basis. We doubt that this could lead to the separation of powers which we consider to be important and the draft legislation we propose specifically excludes serving ministers or civil servants. We recommend that the chairman should be a distinguished, independent figure; perhaps a former army officer, former ambassador or former businessman. The key thing is that the chairman should maintain the organization's independence and provide strong and distinguished leadership in giving a dynamic and commercial thrust to the public industry's work."

Even when C&L were informed that the minister of the MWR himself wished to be the chairman of the board, they expressed a strong "preference" for their proposal and did not change their recommendation. However, they concluded by stating that the alternative preferred by the government was "workable as well".

Since the vice-chairman would be responsible for the day-to-day management of the NEA, C&L suggested that the designated person should have the demonstrated ability to manage and develop a large organization. They preferred the candidate's experiences to extend outside the government and they stated that some knowledge of



technical matters was desirable. However, it was "not essential that the post be filled by an engineer" since adequate technical advice would be available from subordinates. The recommendation on choice of other board members was as follows:

"Some will be appointed to represent particular interests but if civil servants are appointed great care will be needed to avoid giving the impression that the board is or should function as a civil service committee. Members from outside the government will need to represent such interests as industrial and commercial customers, and they will also need to bring to the Authority broader experience, particularly of the private sector."

(b) Organization Structure

C&L's recommendations included the design of the organization structure down to the second tier management, lower level organization design for the Distribution and Customer Services and Rural Electrification directorates, allocation of functions between the directorates, job descriptions for top posts, and the positions and grading throughout the organization.

The structure of the NEA involved four directorates responsible for generation and transmission; distribution and customer services; rural electrification; and planning, evaluation and finance; and a Secretariat reporting to the vice-chairman. Appendix 5 shows the

"first tier" organization structure. The Secretariat was a small unit reporting directly to the vice-chairman and working for all the board members. It was responsible for the inter-related functions of providing various services for the board, such as ensuring that the powers given by the legislation to the board were exercised and delegated legally and providing legal and related administrative services. The Planning Evaluation and Finance Directorate (PEF) was essentially a corporate planning and resource allocation unit; it was given the responsibility of developing the planning, finance and accounting, and personnel management functions which were considered "weak areas" in the old set up. The Generation and Transmission Directorate (G&T) was responsible for the technical work of project preparation, construction of major hydropower projects and of the high voltage transmission system, operation and maintenance of completed power stations, and supply of electricity through high voltage transmission system. The fundamental principles which guided their recommendation were that the construction and operations functions should be brought together under one directorate, the transmission of power from generating stations to major loads should be for the G&T directorate and the supply of power to particular areas and consumers should be for the distribution directorate. The Distribution and Customer Services Directorate (DCS) was responsible for supplying consumers with electricity and collecting revenue; the organization was chiefly defined by geography with a

relatively small headquarters providing central support services. The organizational units were divided into the country's five development regions with slight modifications; provisions were made within the organization to manage large extension and rehabilitation projects. The construction and operation of small hydropower units in remote and inaccessible areas in the hills was to be taken up by the Rural Electrification Directorate (RE), that is, any power stations which were not connected to the national grid and which were constructed to supply the immediate neighbourhood.

Four main categories of staff were envisaged by C&L, viz:

- senior management, to include the vice-chairman, directors and their immediate subordinates, and the secretary of the NEA;
- other management and professionals, to include engineers, engineering assistants, accountants and senior bookkeepers with management responsibility;
- other staff whose job required a certain level of educational qualification, training or experience;
- unqualified staff, including drivers, cleaners, peons, etc.

A number of grades were prescribed within each of these categories. Professionals requiring similar levels of post-school training were recommended similar rank whether their discipline was technical or non-technical.

Beyond this, certain posts required greater post-qualification experience or responsibility than others and this was to be reflected in the grading system. For example, the director of the RE directorate was put at one grade lower than other directors because of the differences in responsibility. Altogether fifteen grades were proposed by C&L.

(c) Administrative and Personnel System

The main contributions of C&L in this area were the preparation of a Personnel and Administration Manual, salaries and secondary benefits for the staff and a transitional arrangement for staff transfer. The manual on personnel included sections on manpower planning, conditions of employment, recruitment, rules of conduct, promotion policy and procedures, staff loans, management development and training, salary administration and personal administration procedures. In proposing this package of recommendations, C&L used few of the prevailing conventions in the previous organizations but also tried to create a "more modern environment" for staff to work in and simplified a few of the lengthy procedures. Various new systems were proposed such as an annual performance review for the analysis of training needs, a system of personnel returns for personal records, and departmental manpower demand forecasts for manpower planning.

C&L were guided by the conviction that the "incompetent or idle" should not succeed and the most "able" people should be promoted and provided with adequate financial rewards in the NEA. Hence they proposed competitive rates of pay to attract suitable people to join the NEA, which could then "provide an effective and highly motivated public service". Their recommendation included a modestly enhanced benefits package with moderate pay increases which would allow for a "reasonable degree of modernisation of the current level of provisions and the addition of some minor benefits". Although the proposed grading, salary and benefits could enable the NEA to pay staff at a higher rate than in the civil service, C&L was aware of the fact that a few of the civil servants in the ED might not be attracted to the commercially oriented environment within the NEA. They proposed the following transitional arrangement for the transfer of staff:

- for those staff transferring from the ED with 20 or more years of service, full preservation of status and benefits until retirement. The right to return to the civil service, given a suitable vacancy, following receipt of six months written notice, for a period of five years from date of transfer.
- for those staff transferring from the ED with between ten and twenty years service, a period of three years to decide whether to stay with the NEA or whether to return to the civil service. If return was chosen, a suitable

vacancy should be available and the staff should give six months written notice.

- for those staff transferring from the ED with less than ten years service, a period of one year to decide whether to stay with the NEA or return to the civil service. If return was chosen, a suitable vacancy should be available and the staff should give three months written notice. Those staff could return with fully preserved status and benefits.

All staff moving later to the NEA were to be transferred on a permanent basis except those on secondment.

All recommendations and the validation of the NEA were linked to an implementation programme and timetable designed by C&L. Such a programme was proposed to execute their consultancy assignment as well as to introduce a gradual, orderly transition to the new authority. One of the important tasks considered for successful implementation and impetus to the change programme was the identification of a few key staff, such as the vice-chairman and the four directors. C&L suggested that these key people should work with them to design and execute the change programme, in areas such as legislation, personnel arrangements, finance, etc.

### Implementation of the Reorganization

The details of the implementation of planned changes and the resulting outcomes will be discussed in the subsequent chapters where the process of change will be explored and analyzed. In this section, I shall briefly state the key decisions taken by the government with regard to the reorganization and the establishment of the NEA, and indicate the "real" outcomes in relation to the planned changes. I should mention here that the consultants were not involved in much of the decision-making at the implementation phase of their prescriptions and their proposed transitional strategy and programme remained unaccomplished until they handed in their final recommendations in January 1984. The following short review may adequately reveal the fact that the planned changes were greatly modified at the time of adoption.

The first formal decision by the government on the reorganization was made on 19 November, 1982 in a tripartite meeting of the ADB, the WB and representatives of HMG/Nepal (from the ED and Ministry of Finance). C&L were invited as observers. The meeting deliberated on the first study report submitted by C&L on the institutional arrangements and HMG's decision on the future organization of the sector was eventually set out in a Memorandum of Understanding signed with the ADB. The relevant part of the Memorandum read as follows:

"It was agreed to establish a Nepal Electricity Authority (NEA) which will be responsible for the planning, construction, operation and maintenance of the power sector on a national basis which will be managed by members to be appointed by HMG.....The Authority will consist of about eleven members including: (a) a Chairman, who shall be on a part-time basis and who will be supported by a full-time Vice Chairman; (b) four directors responsible for generation and transmission, distribution and customer services, rural electrification, and planning, evaluation and finance; and (c) other members as determined by HMG....The organization structure of the NEA will consist of four directorates and a Secretariat."

The NEA Act was approved by parliament in 1984 and the NEA commenced operations on 15 August 1985 when the government took a decision to implement the Act. The NEA was created following the merger of the ED, NEC and Small Hydro Development Board. Several development boards were still in operation and executing construction works but it was agreed that these boards would be dissolved on completion of their respective projects which would be taken over by the NEA to become part of its asset base. The NEA was kept under the overall supervision of the MWR which had general responsibility for all public sector activities related to electricity supply.

The NEA Act which was drafted by the government and approved by parliament was a replacement of the legislation proposed by C&L. The main substance and scope of the Act were kept in line with the legislation of other SOE's in the country. The Act did not contain clear provision for operating a commercial utility because it still required the NEA to supply electricity to all,



regardless of ability to pay. The word utility was not mentioned in the Act and the NEA was classified as a "corporate body". It was stated that "the Board, by taking into account the interest of general people, shall follow the principles of trade". There was a provision for paying compensation if losses were caused by actions on government's directives but none of the balancing safeguards were maintained. The NEA's board consisted of ten members with the minister of MWR as the chairman. The other members were the secretaries of the Ministries of Finance, Industry, Law and Order, and Water Resources, a representative of the National Planning Commission, one government official and one representative of financial institutions appointed by HMG, two non-government persons appointed by HMG and the managing director of the NEA who was to act as the secretary to the board. The Act specifically stated that no employees of the NEA could be appointed to the board. The managing director, appointed by the government, was the "chief administrative officer" for managing the affairs of the Authority.

The organization structure of the NEA at the time of validation consisted of six directorates: Engineering; Construction; Operation and Maintenance; Distribution and Consumer Services; Planning; and Finance and Administration. An organizational design with functional departmentation and many more senior management positions was adopted (refer Appendix 6). The middle and lower organizations were gradually developed over the few years

following the inception of the NEA; and many of the institutional arrangements of the old settings were continued in the NEA. The classification of positions and grades was carried out according to the guide-lines prescribed by the PSC which were applicable to all SOE's in the country.

All the staff of the NEC were transferred to the NEA because it ceased to exist as a corporate body after the enactment of the NEA Act. Similarly, the staff of the ED were transferred because its functions were handed over to the NEA and the government decided that the civil servants of the ED should be moved permanently. No rules, regulations and guide-lines concerning the transfer of staff to new grades and positions in the Authority were prepared at the time of validation, hence the staff were provisionally assigned jobs and positions. The final transfer of staff had to be approved by the PSC because the general rules of the PSC on SOE's were applicable to the NEA; however, the staff of the ED were civil servants and demanded special concessions in any kind of transfer. The ensuing differences and consultations between the PSC and the Authority continued for over two years.

Many of the administrative and personnel systems in the NEA were eventually established according to the guide-lines prescribed by the PSC. As a SOE, the NEA was obliged by the constitution of the country to follow these rules and regulations. Therefore, the practices and

procedures relating to salary scales and administration, recruitment and promotion policy, rules of conduct, etc. were kept the same as in other SOE's with no preferential considerations for the requirements of a commercial utility in the case of the NEA.

### Summary

In the context of the underdevelopment of Nepal, hydroelectricity has been the main resource and the government has consistently pursued a policy of developing this sector. The two lending agencies, the ADB and the WB, provided large sums of capital for investment in this sector and they also initiated the reorganization to instil public utility principles in its management. Although the planned changes of C&L were expected to contribute towards such a goal, the implementation of the various changes digressed from the consultant's prescriptions. The "real" change outcomes will be explored in the subsequent chapters in order to understand the process of change, the "how" and "why" of change.

## CHAPTER FOUR

### POLITICS OF CHANGE: PLANNED CHANGE VIS-A-VIS

### IDENTIFICATION OF STAKEHOLDERS AND INTERESTS

The description of the reorganization of the electricity industry in the previous chapter included a detailed account of the historical background of the industry, the planned change programme of the management consultants, and implementation of the reorganization in terms of the creation of a single electricity authority and various change decisions. This chapter will begin to draw up major conceptual themes on the process of change emerging from the descriptive account which will be further developed in subsequent chapters.

The analysis in this chapter can be broadly categorised into three frameworks. First, the need for reorganization and the planned change programme is explained as originating from the planned rational approach to organizational development and change. Second, the interests and interpretations of the external bodies in the process of change are discussed. Third, the expectations and interest of individuals from within the bodies to be merged will be interpreted. The roles and motives of the key individuals and groups will be an

important focus for understanding the process of change because, as stated by Dalton (1973), "values and interests seem to be the determinants of change behaviour and not elements". The inadequacy of a rational approach to understanding organizational change will be evident by the non-adoption and modifications of the planned change programme and proposals. Instead, the process of change and the role played by external and internal individuals in its management will be the main focus of investigation. It is believed that a processual view will lead to a better understanding of change because it tells us "how change comes about, what the characteristic sequence of event is, how the change becomes stabilized in its original locus, how it diffuses to others, how it is limited in time and space - and how the stability it then represents is in turn upset" (Kahn, 1982). The phenomenon of change in the political process model will be explained because this paradigm seems to offer a plausible account of the dynamics of change and explains how it was managed in the electricity industry. However, my intention here is not to come up with a singular theory of change by substituting planned, rational linear theories with political process theories. My task is more in line with Pettigrew's (1985) approach to understanding change:

"..... to identify the variety and mixture of causes of change, to examine the juxtaposition of the rational and the political, the quest for efficiency and power, the role of exceptional men and of the extreme circumstances, the untidiness of the change, and to explore some of the conditions in which mixtures of these occur."

### **The Rational Approach to Planned Change**

The choice of reorganization of the electricity industry by the Asian Development Bank (ADB) and the planned change programmes prepared by British Electrical International (BEI) and later by Coopers and Lybrand (C&L) can be interpreted as a rational planned change. Their assumptions about the structure of the organization, the importance of goals and objectives, organizational efficiency through structure and goal definition, etc. seem to be based on rational thinking. In fact the area of organizational analysis has been dominated by a paradigm often labelled as the "rational model" (Benson, 1977; Colignon and Cray, 1981), "rational selection model" (Benson, 1971), "goal paradigm" (Georgiou, 1973), "conventional organizational analysis" (Salaman, 1978) and "prevailing rational and functional theories" (Meyer and Rowan, 1977). Benson (1977) describes this model as explaining organizational patterns as outcomes of a goal-seeking or need fulfilling tendency of the organization. This paradigm has also been referred to as the structural perspective on organizations because it assumes that structure operates

to achieve predetermined goals. This importance to goals is again common in the bureaucratic theories of organization where it is assumed that organization "strips its members of their personal motives and replaces them with those that serve the purpose of the organization" (Greenfield, 1973). Similarly a rational approach to change takes a structural approach to organizations and treats them as goal-seeking entities. An organizational change focuses on the creation of a rational organization in which the following four assumptions (Zey-Ferrell, 1981) will generally exist:

- i. means end relationship are assumed, i.e. certain structure result in certain outcome or performance.
- ii. organizational efficiency is maximized.
- iii. decision-making follows a certain form of logic considered more rational.
- iv. the desirability and achievement of certain organizational outcomes or goals through a more rigidly structured organizations.

The genesis of the reorganization of the power industry that took place in August 1985 can be traced back to the involvement of ADB in the power industry in Nepal. In 1972, the ADB emerged as an important lending agency for the power industry and at the same time

identified shortcomings in operation and performance, particularly in financial management and planning function of the Electricity Department (ED). The bank mission which came to appraise the loan for the second power project in September 1975 raised serious doubts about the institutional arrangements of the industry for the first time. This mission saw no scope for improvements in the ED and further pointed out the incongruity of operating the electricity industry as part of the civil service bureaucracy. The head of the mission team of ADB, Sieber, described the feeling of "complete uneasiness with the bank giving the loan to the ED, which has no accountability financewise with regard to the operation of the facility". The team also reiterated the financial disorder in the ED. On the technical side, the separation of the construction and generation/distribution functions between the two autonomous organizations was regarded as "very unproductive" and the team stated that the "evidence was very clear that it was not in the best interest for having an efficient power supply". On the other hand, the performance of the Nepal Electricity Corporation (NEC) which, as the main generation and distribution organization in the industry, was far from satisfactory with system losses exceeding thirty percent of gross energy generation and had a very high employee to sales ratio, twenty employees per million KWH of electricity sales. This was one of the highest figures among the bank financed utilities in the region. The mission team



concluded that the institutional arrangement was the main cause for many of the woes and shortcomings of the industry. In 1975, the industry already comprised four separate entities and there was also some thinking in government circles that each of the four development regions in the country should have their own electricity body. The existing set-up and the further fragmentation by creation of more bodies were against the notion of an appropriate structure envisaged by the ADB team. The financial analyst of the mission team, Esperto, recalled recommending against such a fragmented structure:

"We thought that such a small country with so many authorities was not very efficient...there was a need to have a thorough study of the entire institutional set-up of the power industry because of our experience in the other sectors in the other countries.....a need for an overall look at the institutional set-up and then from there determine what is the most appropriate means of reorganizing the sector with a view to creating one authority.....So we convinced the Secretary of the power industry at that time to approve an institutional study".

The bank's definition of an electricity industry was a single authority operated as a public utility which was more likely to contribute to efficiency in operation and generate profit as well. The mission leader spelled out the advantages of a single utility:

"We wanted to talk to a utility and not to a government department .....What we really wanted was to have something like a utility which kept books about their records .....It is evident that utilities are more efficient than the civil service. The civil service by its nature is inefficient everywhere."

The essence of the reorganization effort of the ADB was the design of an organization structure which would incorporate all the functions previously undertaken by several fragmented bodies because a single authority was considered the right choice for the electricity industry of Nepal. The mission team believed that such an institutional arrangement would contribute to operational and performance efficiency as in the other member countries of the bank and also be more apposite to meet the future expansion and investment goals of the sector. The position of the ADB on reorganization was clearly a structural approach to problem solving. It was guided by a presumption that organizational problems can be solved "by redefining areas of responsibility and authority, enforcing the chain of command and so on" (Leavitt, 1970). Here, if we refer to Leavitt's four interacting variables of all organizations, i.e. task, structure, technology and actors, the reorganization focused mainly on the structure variable. A rectification of the poor performance was sought by optimizing the structure - as is common in the thinking of classical organization theory. This approach to organizational change is still very common and Leavitt (op.cit.) describes it as based on abstractions, formal, legalistic, poorly anchored in empirical data and almost incredibly naive in its assumptions about human behaviour.

In the first institutional study conducted by BEI, the key task was to determine the "most appropriate

institutional basis" for the operation and future expansion of the power sector from the stand-point of giving it and the entities running it necessary responsibility and autonomy in the conduct of operation, in accordance with sound public utility praxis. In their report, the consultants listed numerous failings in the institutional structure and concluded that the causes could be put into two main categories: as a result of excessive demarcation in the roles assigned to the various management bodies and excessive involvement of the civil service in the managing of the electricity industry. Such demarcation precipitated several problems such as the separation of the construction and operation functions, too many construction bodies by projects, and differences in territory and consumer groupings. As for the control exercised by the civil service, they stated that the electricity supply industry could not be operated efficiently in an environment dominated by civil service bureaucracy. The BEI consultants recommended the creation of a single body to perform all the functions because such a structure was taken to be essential for overcoming the existent shortcomings and more importantly for meeting future challenges in terms of growth in supply and expansion of the industry:

"It appears that with a degree of load shedding up to (say) 1982, an average growth rate of a little over 10 percent could be sustained from now at least up to the late 1980's when the load may be almost three times what it is at present.....In order to carry out the (future) tasks effectively, the Electricity Supply sector must develop systematically its marketing and commercial

negotiating skills, its ability to develop engineering projects, its capacities of analysing and forecasting load growth.....To do these things, the Electricity Supply sector needs to set out to develop its management techniques and abilities. It must form an integrated group of permanent and competent managers capable of welding together the specialists' knowledge of functional groups, and it must set out to build a well-trained work force motivated strongly toward serving the nation through an efficient public enterprise."

In order to carry out these tasks effectively and thereby meet the goals of the sector, no one structure would be so befitting than a "single public enterprise corporation committed to building power stations and extending the distribution network with the continued facility of using consultants; to be responsible for operating all electricity facilities in the country; and dealing with the sale and purchase of electricity both within Nepal and across its border" (BEI).

The second institutional study by C&L was conducted on the assumptions that the electricity industry definitely needed to be reorganized and consultants were hired to advise on the most appropriate structure, design and implementation. The necessity of a new institutional arrangement was, by then, a foregone conclusion, according to the leader of the C&L team, Trevor:

"In a sense the acceptance of the consultants to advise them on how to reorganize was a recognition that reorganization was needed and certainly when we got there everybody accepted that the industry had got too fragmented. I don't think there was much debate about that. My recollection is the debate was about how to reorganize and not about whether something needed to be rearranged".

Like the BEI the starting point for C&L was the identification of problems and shortcomings of the industry which necessitated changes in the institutional arrangement. They were particularly concerned about the following problems:

i. fragmentation of the industry with no clear responsibility for ensuring good electricity supply to the consumers; no adequate planning for the future due to such fragmentation.

ii. boundary problems in the existing structure due to the fragmentation.

iii. widespread concern about the existing organizational arrangements by the people interviewed by C&L.

iv. shortage of engineers in the NEC.

v. rules and regulations surrounding civil service and government corporations being incompatible with problems and responsibilities of operating a service industry effectively and efficiently.

C&L supported the reorganization because they saw all anomalies as emanating from the structure itself. A major change and reform in the institutional structure was therefore inevitable for enhancing the efficiency of the industry. Trevor who was responsible for preparing the

first discussion paper for the lending agency and the clients, justified the reorganization because "it does seem to me looking back on it, that the lot of the problems of the Nepalese electricity industry could be brought down to the fragmented nature of the industry".

The achievement of future goals and objectives of the industry was the other important rationale for altering the structure according to the ADB and supported by C&L. The power requirement of the country was anticipated to have an average growth rate of 13.1 percent from 1980 to 2000, representing a doubling in capacity about every five years. The government was also considering the construction of eleven more generation projects for the next two decades which would have a total capacity of some five to six thousands megawatts and a capital cost of US \$4500 millions at 1980/1981 prices. There were ambitious plans for new transmission systems and rural electrification. Over and above, it was acknowledged by both ADB and the consultants that water was the most important resource of Nepal and this sector required to make maximum contribution to the general economic development of the country. A cheap and regular supply of hydro-electricity was considered as not only essential to all other development activities within the country but the export of surplus power to northern states of neighbouring India was conceived as the most reliable and promising source of revenue by senior people in the industry. Much hope, aspirations and expectations

were attached to the potential of water resources in Nepal. The chief engineer of ED regarded water resources as equivalent to "oil" which could generate huge revenue much needed by the country in her race for development. The significance of the objectives of the industry not only to the sector but more importantly for national development was often stated by the ADB and the management consultants. Indeed if there was one foremost expressed reason for the reorganization by the bank, it was the vital importance of the industry to the national economy. Following this line, the consultants assessed the future responsibilities of the industry in terms of capital investment and major developmental projects and programmes and they concluded that the future challenges to the sector made it imperative that the new organization should be goal-seeking and need-fulfilling. A rational combination of goals and structure was to be brought about by the process of reorganization. The "dominant perspective" (Zey-Ferrell, op. cit.) on organization assumes that an organization is an instrument designed for goal achievement while its structure enhances such process, that is, certain structures result in certain outcomes or performances.

The economic importance of the electricity industry for the development of Nepal and the huge capital investment required for its growth and expansion were taken into account by the ADB and the consultants and their common interest was to implement a radical change,

a breakthrough in the legal position, structure and systems of the electricity industry so as to create the necessary conditions for better performance and efficiency. The setting up of a commercial utility to operate this sensitive industry was crucial because this would represent a significant break for an economic sector that was traditionally operated and exercised rigid control by the government bureaucracy. The success of this radical change would have enormous implication for the management of other utilities which were also controlled by the government such as drinking water, telecommunication, sewerage, etc. Hence it was symbolically important for the ADB to successfully create and manage this reorganization which in turn would determine its future influence and role in other sectors where it continued to advance loans.

The electricity industry faced major managerial and technical challenges in meeting the projected domestic power demand over the next twenty years. Any initiative for improvement was to be launched with changes in the structure first and Trevor went on to state that "changes in management approaches and systems are clearly required as well but we are convinced that major institutional reform is a necessary condition for Nepal to develop the electricity sector it requires. This is not just a dislike of the existing structure". Therefore, the hybrid-model of organization design was recommended as the "best way of giving effect to the structure" and to



meet the needs of the sector. This structure was expected to fulfil all rational characteristics such as goal achievement, planning, coordination, efficiency, etc.:

i. sector to be managed in a coordinated way so that different activities reinforce and complement each other (rather than a sector in which there are conflicts and competing interests).

ii. a strong planning function developed to build up data and information from geographical and functional units and resource allocation decisions to be taken at the top in the best interest of the sector and the country.

iii. a delivery of a good, responsive service to the consumer and the operation of the industry in an economical, efficient and cost effective way.

iv. achieve broader social and economic benefits from rural electrification.

The creation of a single autonomous utility operating in commercial maxim was the choice of the ADB because it anticipated that the existing problems of the industry would be removed and additionally the goals of the industry and the objectives of the government would be fulfilled, that is, a "value maximizing choice" of the rational model according to Allison (1971). The same line of thinking was endorsed by the two consulting firms in

their recommendations for the reorganization of the industry; they advocated a structural approach to institutional change. A new structure would remove and solve all the shortcomings and also be conducive to attaining goals efficiently. A single variable was given high priority to improve the performance of the industry and a direct relationship was drawn between structure and goal achievement.

The descriptive section on the implementation of the reorganization has already emphasized that the planned change proposals were considerably modified or rejected at the time of decision-making. Such variances in managed change have been explained by Tichy (1983) as "intended" (explicitly planned for) and "realized" (emerged out of the situation). The reorganization process as it took place in the electricity industry can be looked upon as two different phases. The first phase involved the initiative on the reorganization by the ADB and the WB and recruitment of the management consultants; the achievements were the decision by the government to create the NEA and the preparation of planned change proposals by the two consulting firms. The second phase covered the implementation of the reorganization including the process of decision-making on the several organizational changes and, furthermore, it provided an opportunity for investigation and interpretation towards the understanding of why the planned changes were largely rejected and how the change decisions were made.

The planned change was based on rational assumptions and offered an overly simple guide for decisions to be taken to create the new authority. These prescriptions were a rational problem solving sequence of activities and did not match the real decisions that were taken in the course of the change and the actions of the individuals could hardly be described as contributing to the rational goals of the planned change. As stated in chapter one, many of the theorists working on planned change have adopted this linear phasewise approach backed by normative, rational prescriptions, e.g. Lippett et. al. (1958), Beckhard (1969), Hage and Atkin (1970). The limitations and inadequacy of planned rational approach to change expressed by Pettigrew (op. cit.) in his valuable study of ICI applied in the implementation of this reorganization as well:

"...it will be clear that rational problem solving approach to planned change and innovation is both an inadequate way of theorising about what actually happens during change processes and an overtly simple guide for action. The field of organization change badly needs theoretical development along the lines of literature on organization decision making where there are now a variety of process models of choices which include satisficing views of process (March and Simon, 1958): political views of process (Pettigrew, 1973); and garbage can view of process (March and Olsen, 1976)".

Since the actual change processes and outcomes were very different from the prescriptions set out in the consultants' reports, I decided to carry out a process-oriented analysis into the processes which occurred within the electricity industry during the

reorganization. The data of this study clearly indicates interactions among various individuals representing institutions, groups or individuals in the different stages of the change process. These individuals were from both within and outside the industry and change was a result of interactions among them. Identification of these individuals and their interests in the change implied adopting a pluralistic view of the organization (Pettigrew, 1973; Allison, 1971; Cyert and March, 1963; Child, 1972; Crozier and Friedberg, 1980). Such a view is in marked contrast with the view adopted in the planning of the change where the government was treated as a monolithic unit making rational choices and decisions on the creation of a electricity authority. Quite to the contrary, change was influenced by many agents with different interpretations and power and the change decisions matched the "political model" of Allison (op. cit.) in which there were many players "who focus not on a single static issue but on many diverse problems as well; players who act in terms of no consistent set of strategic objectives but rather according to various conceptions of national, organizational and personal goals". The numerous individuals and the differences in their interpretations originated from the complexity of the reorganization itself. It was a radical planned change, i.e. a merger between a government department and a state-owned enterprise causing two complications. First, both the ED and the NEC were parts of the government bureaucracy and have established close

working linkages with a host of other government bodies. Any changes in this linkage implied redefinition of the relationship. Second, the reorganization was a radical change for people working within the industry and required "redefinition of the nature, scope and purpose of particular individuals, groups and even of the enterprise itself" (Mangham, 1979). Since both the ED and the NEC were terminated after the creation of the authority, the new organization brought about a situation where every individual role, job and position had to be redefined. The situation had the potential to kindle the interests of all the individuals. There was strong advocacy for certain line of action from within and outside the organization and there was also opposition from the others. Since self-interests of the individuals were at the core for taking a stand in support of or against an issue, a political process was very much part of the change. Mangham (op. cit.) states that "every trick and resource will be called into service to bring about or successfully to oppose the innovation under consideration. Power and politics inform all forms of planned change". The process and outcome of reorganization can be accurately interpreted in terms of the diversity of the stakeholders and the different positions they took in defining situations. The multiplicity of interests of the dominant individuals was also the cause for a great deal of conflicts, collusion, compromises and negotiations.

### Interests and Interpretations of External Stakeholders in the Process of Change

The electricity industry constituted not only several autonomous fragmented bodies but there were also several external organizations which had direct influence on its performance, operation and behaviour. The lending agencies represented mainly by the ADB and the World Bank (WB) were the main financiers for all the development activities and they have played a significant role in the growth and expansion of the industry. The ED as a government department was a wing of the Ministry of Water Resources (MWR) and part of the civil service. The NEC as a state-owned enterprise with many interrelations, constituted a complex organization system that could be interpreted as the "ecology of public enterprise" (Suarez, 1985), that is, state-owned enterprises exist in a milieu of a complex set of interrelationships in the economic, social and political domains constituting an intricate network of system of interlinkages. The consequences of such interlinkages according to Suarez is that:

"the behaviour and performance of public enterprises are a result not only of managerial processes within the enterprise but of managerial processes in those external units which are related to the enterprise and define its goals and objectives over time. Efficiency in public enterprises is therefore a function of macro and micro management.....Interlinkages between public enterprises and their milieu may be of two types, formal and informal. Formal interlinkages refer to the relationships between the enterprise and the formal authorities such as government ministries,

agencies, parliament.....Informal interlinkages, by contrast, are "underground" relationships connecting persons, groups and organizations. These types of interlinkages are normally developed on a personal basis, rather than an institutional one and serve to get things done when the formal linkages fail."

The numerous external and internal interlinkages operated as a web of established relationships within which several organizations of the electricity industry operated and performed. The reorganization involved severing the established linkages of the old set-up and creating a single new state-owned enterprise with its own linkages. These linkages referred to as stakeholders were represented by individuals who acted on behalf of their organizations. Mintzberg (1979) describes "external coalition" as made up of participants who vie for control and power from outside the structure of the organization. Stakeholders are a common feature of all organizations and they consist of elements outside the internal management control but which affect its behaviour in the case of government enterprises. Somasundaram (1985) describes state-owned enterprises in developing countries as welded into a "organizational anti-world of stakeholders" and "stakeholder management has a greater impact on public enterprises than the public enterprise management itself". He defines the role and influence of stakeholders over the enterprises:

"Stakeholders are those elements outside the internal management control of public enterprise, but which affect their behaviour and performance. Such a superstructure is contrary to the received wisdom of organization theory, because most of the factors which affect the performance of the organization are supposed to lie within the internal control of its management. If they were to be outside, one of the main functions of its top echelon would be to manage them overtly or covertly, for success in this field would ensure success for the organization. But in the case of a public enterprise, the elements outside the control of its management are structurally entrenched and independent of it and indeed considered to be in binary opposition."

The concept of stakeholders constituting a complex social system of all organizations is well discussed by Mitroff (1983). He describes modern organizations as being "buffeted by a disparate array of forces" and stakeholders as those parties who either affect or who are affected by the organization's policies, actions, etc. An interesting difference is made between stakeholders and stockholders which is very pertinent in the case of state-owned enterprises because the shareholder is usually the government but control and influence is exercised by a host of government and other bodies who operate as stakeholders. These different stakeholders need not share a common definition of the organization's problems and do not often agree on the same solution.

The stakeholders whose interests were affected by the reorganization and those who were involved in the process of creating a new authority are considered in this analysis. The external stakeholders are classified



into two groups for the purpose of this analysis. The first group of external stakeholders includes the all important multilateral lending agencies who provide the capital for the development of the industry and have also played a decisive role in introducing the new institutional arrangement. The second group consists of those linkages within Nepal that were concerned with the implementation of the new authority.

#### i. The Lending Agencies

Though recommendations for the institutional improvement of the power sector were put forward in several studies conducted in the sixties and the seventies, the concept of a public utility managed along the lines of profitability and autonomy was for the first time instigated by the ADB after their involvement in the sector. The earlier proposals on improvement of the management system of the NEC by a group of British advisers was to some extent implemented but the proposal by Indian experts on major restructuring of the power and water sector was shelved and never executed. The organization structure of the industry gradually evolved from 1962 onwards and was run along the traditional lines of a civil service department and a public enterprise. The requirement of a power industry as interpreted by the ADB did not match with this set-up. I have already stated

that the main contention of ADB was that a utility should be created to manage the industry and the definition of such an organization was provided by Sieber:

"A utility for us is something which has to make a profit, have books of accounts and make projections, budgets for operation for both construction and operation and maintenance."

The appropriateness of a utility was endorsed because the bank from the very inception regarded the power industry as capable of profit generation and cost recovery. A joint secretary in the Ministry of Finance responsible for foreign aid in Nepal confirmed that the prime concern of the ADB was that their investment in the power industry should be "productive", that is, generate further resources so that it can be reinvested again in other sectors of the economy. The investment requirement in this sector was already huge and future investment potential and demand was very high. The costs of such investments needed to be recovered according to Sieber:

"otherwise you can bankrupt Nepal for instance in one year if you do not try to have cost recovery.....So it is related to the principle of cost recovery that we become so tough. We keep on giving money to education and irrigation because there is no way but there is a other way with regard to electricity. It must work like a factory, like a shoe factory. This is the background to why we push for this kind of a utility, not because we do not trust the Nepalese government".

The emphasis of the representatives of the ADB on a single, autonomous utility was partly based on their past experiences as a staff member of the bank in other loan

receiving countries. BEI's recommendation of a single public enterprise was defended by the mission team of the ADB for the second power project because it measured up to their expectations. Once again Sieber stated the congruity of a commercial utility based on their experience:

"We have travelled around the world and for any culture there is the basic principles which are the same. You have to follow it and make adoptions to make it work in your culture. There is no Nepali organization structure as such which some people claim. It is a convenient excuse to say it was designed for another culture."

Another member of the ADB team supported the creation of a utility because it corresponded with their work in other loan recipient countries at that time:

"Our own experience at that time was based on the system in Thailand in which we had lot of contacts and experiences as well as in the Philippines. In Thailand, you have EGAT which is the national electricity generating agency which sells to retailers such as to Bangkok and other authorities. The Philippines is also more or less the same concept. Nepal was not as large as this system. So although the consultant had to study this option under the institutional study, the concept of one authority which eventually happened probably is the right choice."

There was much resistance to this proposal of creating one single organization by senior engineers from the ED (discussed in later chapters) mainly because such a change required a radical adjustment to the existing arrangements and, furthermore, the viability of a single

utility was questioned by many. The deputy chief engineer of the ED recalled making alternate proposals:

"I suggested that we still maintained two separate organizations, that the ED sold the power house after construction to the NEC as done by the CEGB in the UK but this proposal was rejected. BEI's one organization proposal was too theoretical but academically a good idea. It consisted of a unity of command, communication and all other advantages but we do not have the managerial knowledge or expertise. A single large organization needs management systems, procedures and practices but these are nonexistent in Nepal..... In the context of the socio-political background of the country, bringing together two units under the name of one organization cannot bring efficiency alone, you cannot expect improvements in organization.....Moreover, the one unit proposal did not take into account the complexity of managing two groups of staff."

A senior engineer of the ED who resigned after the creation of the NEA commented on the structural imposition enforced by the bank as a total destruction of a set-up that had evolved over the years:

"The banks like to keep on experimenting just to see something is being done. They don't build on something that is already there but they destroy what was already existing. They insist on trying to create something new and claim we created it."

The interest of the WB as an another multilateral funding agency blended with the initiatives undertaken by the ADB and the idea of a single utility was described as a "shared belief" by both the technical staff of the WB working in Nepal and by their counterparts in the ADB. An important meaning attached to the reorganization by the WB was the belief that better management practice was

possible in a single authority, which could result in improved performance, than in the old set-up. The Deputy Representative of the WB in Nepal gave a clear account of their position concerning the advantages of the reorganization:

"I think the WB envisaged that if you put all the functions together or all the departments and divisions that are responsible for the different functions together in one organization then it would make management easier".

Another very important consideration of the lending agencies was the accountability and security of their huge loans to the electricity industry. This concern for security of loans was different from a commercial bank's assessment of risks of non-payment of the invested money because the loan was given to the kingdom of Nepal which provided a safer guarantee. The ADB as a developmental bank was keen to see that the loans were properly used exclusively for the agreed projects and the accounts properly maintained and timely audited. However, the operation of the ED was lacking in both areas and although it was the executing agency for loans, it held no accountability for repayment which was passed on as NEC's responsibility. Furthermore, the financial performance of the NEC was distressing in terms of recurrent negative profitability, high system losses, low return on investment and the low debt-equity ratio. These financial ratios were used as indicators of the financial health of the industry by the lending agencies and they

were often concerned and dissatisfied with the weak financial position of the NEC. The WB was very concerned about the security of its investment and demanded that the loans were made prudently without the danger of it being eroded and not achieving stated objectives. So, for example, if a certain institutional arrangement was weak and might be the cause of putting a sectoral loan at risk, the WB introduced conditions to correct such potential danger to their investment. The Deputy Representative stated that the bank took all safeguards to protect investments and their principle was "no different than if you go to a mortgage bank because it is essential to protect our investment, be responsible to shareholders which are close to one hundred and sixty members".

The joint action and mutual support between the ADB and the WB emanated from shared views about the anomalies of the sector, the security of their investments and a common stake in the future of the industry. As the main financiers of development projects, their interest was divided between the financing of power projects and transmission lines. The two banks were not competitors in the sector but shared "very good cooperation at staff level as well as at senior levels and exchanged appraisal reports, documents and other reports" according to Esperto (ADB). Both were development banks and followed similar policies and views in their lending programmes. Sieber explained that there was risk in adopting

different views by them because there was a danger that "everybody would play one against the other". It was these commonly shared goals which led to joint efforts for achievement of common interests. Weick (1969) describes joint action in which "each actor uses and is used by the other person for the accomplishment of activities which neither alone can accomplish". The establishment of an authority was the creation of a social order based on their joint definitions of reality to "make the world more predictable" (Mangham, 1979). However, it would be an oversimplification to assume that the changes that took place were solely the outcome of joint action of the two banks. The other levels of interactions which resulted in "interlocked behaviour" (Weick, op.cit.) need to be considered as well. For example, the interaction between the lending agencies and the management of the industry was the other form of joint action and this pattern continued with all the stakeholders.

An examination of the relationship between the borrower and the two lending agencies is important in order to understand the choice of one utility as a result of preference of the banks. Right from the early 1970's when the ADB started to finance the construction of transmission projects, the infrastructure of the industry was very rudimentary, needing huge investment in the construction of power generating projects and transmission lines. Only a marginal percentage of the

population of Nepal was supplied with electricity and the government aimed to increase the total supply to consumers in all the subsequent development plans. On the other hand, the economic reality of Nepal is that she is one of the least developed countries and constrained with shortage of finance in all her developmental efforts. She was and still is totally dependent on aid from donor countries and loans from lending agencies such as the development banks. The bilateral aid was often inadequate to meet the demands of the various sectors and such aid was also often dependent upon the political relationship between countries rather than the economics of the development project. It was with this need for financing of her development activities that Nepal joined membership of the ADB and the WB. The important element of the loan from these multilateral agencies was that the conditions were very attractive to the borrowing country. For example, there were special concessions for countries in the lowest per capita group in which Nepal falls - a fifty years repayment period with ten years grace and with one percent service charge in the case of an IDA loan from the WB. In essence the loan had a "really high grant element making it very attractive" according to the joint secretary of the Ministry of Finance. Along with the power industry, many other different sectors have received loans from both the ADB and the WB and consequently both agencies now exercise considerable clout in the development efforts of Nepal. For instance, the currently ongoing "structural adjustment programme"



of the WB was adopted by the government to remedy the anomalies in the economy of Nepal and to reconsider her developmental plans and priorities.

The loan to the power industry has to be considered in this historical context. The very next loan of the ADB to Nepal was for the financing of the first power project in 1972 and the bank supplied five loans to the power industry totalling US \$35.9 million by 1981. The involvement of the WB in this sector started only in the late 1970's but the volume of loan was considerably larger because it was for the construction of power generation projects. The total reliance of the power sector on the two banks for loans was explained by the joint secretary of the Ministry of Finance:

"Because of the soft loan and the conditions which are favourable, we are very dependent on the banks for all our developmental activities. As long as we have to seek loans, this is the only source we can turn to. Other commercial loans are just too exorbitant and the conditions are too harsh."

The dependence of the industry generated a strong source of power to the banks. The banks were in control of capital which was the most essential resource for the industry that was trying to expand and grow fast. Obviously this dependence relationship gave power to the banks as explained by Emerson (1962):

"It would appear that the power to control or influence the other resides in control over the things he values, which may range all the way from oil resources to ego support."

This kind of interpretation of power has also been presented in the works of Blau (1964) and Thompson (1967) and will be discussed at length in chapters five and six. The resource dependency perspective on power between organizations was studied by Pfeffer and Salanick (1978) and has relevancy to the role of the lending agencies. The authors treated organizations as open social systems requiring continuing provisions of resources and transactions with the environment. Those subunits that can provide the most critical and difficult to obtain resources have power in the organization - the emphasis is on social power which is derived from the ability to furnish those resources on which the organization most depends. A simpler but equally accurate explanation was given by Pfeffer (1981) when he wrote "he who has the gold makes the rules".

Both the ADB and the WB have extensively made use of the dependence relationship to influence the growth and development of the electricity industry. The conditions and covenants stipulated in all the loan agreements were generally the definitions of reality spelled out by the banks and pointed towards their desired course of action and direction. Subsequent loan requests were approved only after assessing the compliance with previously set covenants. The consequence of inaction or non-adoption of

the covenant by the borrower was the threat of discontinuity of the present loan or stalemate in negotiation of future loans which often resulted in more stringent conditions. Dependence was not only a social relationship but was easily translated into effective power as explained by Pfeffer (op. cit.):

"The ability of the actor with power to measure and observe the other's compliance with the demands made also affects the ability to translate dependence into actual power over the other's activities."

Independent consultants like BEI and C&L were recruited at the insistence of the ADB not only to present a neutral recommendation on the institutional rearrangement but to further the process of reorganization in accordance to their preference. Sieber admitted that the recruitment of the consultants was encouraged because the borrower was not taking any initiative towards change and the bank had waited for a long time anticipating proposals and actions. The consultants were expected to expedite the change proposals as well as execute them. This hiring of outside consultants was similar to the notion of "selective use of objective criteria" of Pfeffer (op.cit.) in which the outside expert was used to affect decisions in a somewhat less visible way and "to legitimate the decision reached and to provide an aura of rationality to decision-making".

## ii. The Internal Linkages Within Nepal

The notion of interlinkages as stakeholders is a more realistic way of looking at government as a decision maker because a government may be seen to consist of "a conglomerate of semi-feudal, loosely allied organizations each with a substantial life of its own" (Allison, op.cit.). The stakeholders make up a predominant feature of the electricity industry and can also be described as a superstructure which has a strong influence on its performance. The stakeholders not only have their own mandatory area of authority and responsibility but constitute individuals who often interpret, defend and manage these relationships according to their definition of the reality that should prevail and "acting on some belief of how things should be" (Mangham, 1987). A decision of the government to create a new state-owned enterprise as in this case became much more complex than the "standard operating procedure" (Allison, op. cit.) of a bureaucracy. It is evident from the data that the governmental bureaucracy operated as interlinkages with established procedures but more meaningful was the fact that individuals who represented these bodies were able to interpret, bargain, compromise and make choices to pursue their interests and definitions. Therefore, the role played by individuals representing these linkages was definitive in the process of change.

a). The Ministry of Water Resources

The Ministry of Water Resources (MWR) was the main sponsoring governmental agency responsible for the power industry - as parent ministry of the NEC and directly involved in construction activities through its own department, the ED, and several development boards. The most dominant feature of this relationship was described by BEI (as stated earlier) as a situation of control of the industry by the government and a reluctance to ease this kind of hold by the MWR:

"despite the fact that a developed electricity supply industry is one which cannot be run efficiently within the customs, constraints and environment of a civil service bureaucracy in which none of the training, experience, practices or procedures, are specifically designed for managing a trading enterprise. ....Criteria for recruiting, promoting, transferring and disciplining corporation employees, are determined by the civil service. Even the organization structure is subject to civil service influence."

The creation of an authority confronted the "pre-existing complicated structure of relationship" (Sarason, 1972) of an old setting which was dominated by the MWR. Individuals representing the ministry played a key role in negotiations with the banks on the institutional rearrangements, interacted with the consultants, designed and executed the reorganization. Although at a ministerial level the government decided on the creation of the authority, the MWR as the sectoral ministry was responsible for drawing up policies and programmes for

implementation. The interacting individuals were mainly concerned with the control of the industry as in the past and they were reluctant to resign their traditional control and advantages. All the key individuals justified the role of the ministry and provisions were made in the legislation which ensured future control. For example, at the highest level the consultant recommended a full-time chairman to be appointed by the prime minister so that a distinguished chief executive could resist the interference of the parent ministry. Very much contradictory and paradoxical to this proposal was the choice of the MWR minister to be the part-time chairman; the minister stated his reasons:

"If you take the Ministry of Water Resources and if you take away all the hydro electricity from it, there is nothing in the ministry virtually because the major part of the decision-making that any ministry has to make is concerned with hydro electricity. Now that's why I thought it was appropriate for the minister to be the chairman of the board. Otherwise, there is no point in having a MWR unless he is the chairman of the authority. As the chairman of the board, the minister can have much more leeway to act freely, independently and effectively on the advice of the board".

The ministry as the influential stakeholder was not prepared to minimize its role in the new authority and sought to retain the control relationship in the legislation. It preferred to keep things as they were. Lippitt et. al. (1985) describe this as a common phenomenon in which "change in organization is often followed by a regression toward the old pattern after the pressure affecting change are relaxed". The main

rationalization underlying such control according to the key players of the MWR was the issue of ownership of the industry by the government; and the importance of the water resources sector for national development was another argument. Moreover, not only did all the assets of the NEA belong to the government but all loans were given to Nepal and not to the NEA. The government as the sole shareholder was entitled to exercise influence on the authority and control was a result of ownership, at least so it was claimed. The role of the authority as interpreted by key players in the MWR put to question the very objective of the reorganization, that is, the setting up of an autonomous, commercial utility. Even senior staff such as the secretary of the MWR argued that the industry could not go "totally commercial" but instead follow "a mixture of social and commercial objectives". This problem was representative of many state-owned enterprises in developing countries according to several studies sponsored by the International Centre for Public Enterprises (ICPE, 1985):

"There is strong expectation that public enterprises should operate as sound business firms generating surpluses and providing resources to the public exchequer. At the same time, there is an equal desire that public enterprises should function as instruments of national development and social policy."

The exclusion of the consultants from the implementation and transition of the reorganization, although this was one of the crucial phases in their

recommendation, was a preference and very significant choice of the individuals in the MWR. The same was true of the modifications to the planned changes. John, the residential consultant of C&L who was in Nepal during the setting up of the authority recalled how their transitional arrangement was not accepted and they were not allowed to plan the implementation:

"We wanted a transition period before the handover. As it was what happened was one day the managing director was appointed and everybody else was told that they were going to work for the NEA.....The way organizational change took place in the electricity industry this time around has fallen down in the fact that nobody was allowed to plan anything before reorganization. Consequently, no thought was given to this. It was stated that in the Nepalese circumstances, you cannot have somebody working for the achievement of an organization that does not exist."

The common arguments for the exclusion of C&L from implementation and alterations in the planned changes were that the consultants failed to take into account the reality of Nepal; their concepts were good but not "practical"; they proposed an ideal context, etc. For example, the secretary of the MWR decided against a gradual transition which to him was "unacceptable" and he opted for a "sudden break" from the old arrangement because "since this was a merger, we decided to bring the two organizations together suddenly". Similarly few senior engineers of ED who were covertly assigned the task of working out the structural details of the new authority deliberately avoided the participation of the consultants and instead introduced modifications to the



planned changes. A superintendent engineer of the ED provided an explanation for their actions:

"The consultants suggested different models and we tried to fit them into our system with some modifications. They do not know the actual practical difficulties. We know better than them and therefore it was definitely subject to some adjustments. They can never understand the various difficulties inherent in our bureaucracy, in our system. They can never grasp these issues."

The minister of the MWR who was an active participant in the creation and validation of the authority expressed his opinion about the role of the consultants:

"I don't think there is anything magic about consultants. You know if the consultants make a suggestion it is up to you to decide whether his suggestions are valued or not. One must be very clear that they are there to provide suggestions but the decision that is taken in any activity must be the government's."

It is inadequate to consider only the articulated explanations and interests of the individuals from the MWR which were usually based on rational and economic justifications to legitimize their choices and actions. These may only have been to "cover up" (Stagner, 1969) other advantages gained by dominant individuals from the control relationship. The power industry as the largest state-owned organization and with the highest capital and development budget was an attraction to both politicians and civil servants. The portfolio of minister of the MWR was always held by a full minister and the post was considered the number three person in the cabinet.

Additionally, as the chairman of the NEA, the minister was in a position to influence the enormous resources to his political advantage if he so chose to make use of this. One of the directors of the NEA aptly described the minister as wearing two hats at one time, a politician's hat and a chairman's hat and the former was always more important in the context of Nepal because it was concerned with his long-term political career:

"I am not satisfied about having the minister and yes the organization is paying for it. This is obvious in the over-staffing, tendering, hiring of consultants, etc. These are political chaps and they will always look into political issues."

The authority provided opportunities to promote such political ambitions in many ways and this was clearly evident in the recruitment of over two thousand personnel by the NEA in the past four years when four different ministers took up tenure as chairman at their appointment by the government. Another director of the NEA stated that the recruitment of people was based on political considerations rather than technical and economic requirements:

"When we were established the total staff was 6500 and subsequently every year about five hundred staff have been added and this too without any addition of major generation and transmission projects. Our distribution and customer services have remained the same with only slight increases.....I can recall the secretary of Ministry of Finance stating that state-owned enterprises are the mistresses of ministers and this is very true in our case. They always demand employment, vehicles, sponsorship, etc."

The opportunity of granting employment to the public from the constituency of the minister was a bonus for his popularity and future elections, specially when one takes into account the high rate of unemployment of educated graduates and the lack of opportunity of employment in the very small private sector. Agrawal (1978) states that such a form of employment is a common problem in all state-owned enterprises in Nepal because positions are created on an adhoc basis, at times for the sake of certain specific persons and pressure is placed upon the enterprise even to take staff over and above their needs. He narrates how such temporary appointments can turn to permanent liabilities for the enterprise :

"Recruitment of relatives, acquaintances and favourites on a temporary basis for a period not exceeding six months have become a popular game for getting around the (PSC) rules. Such appointments generally get renewed in some cases stretching even up to five years and with the passage of time, termination of such long-term temporaries become unthinkable and eventually they get tenure by getting round the rules."

The cost to the organization was seldom taken into account and the threat of such sponsored employment to the future of the authority was voiced by John:

"In the end this sort of system is going to kill the goose that lays the golden egg because you cannot keep loading up, loading up and loading up. Eventually you are getting to the situation and I hear rumoured in the NEA that there might be toward the end of this year a cash flow shortage simply because the income is not reaching the outgoings."

Although the civil servants of the MWR may not customarily put forth such open claims and demands on the authority, as they are to some extent restricted by various rules and regulations, there were still advantages to be gained from the control relationship. The plentiful resources of the authority and its comparatively flexible rules and regulations made it attractive to the actors in the ministry where there was always a constraint on all resources. The relationship between the parent ministry and a state-owned enterprise in Nepal was summed up in a nutshell by Agrawal (1975) where he also describes such enterprises as "a privileged domain of the government bureaucrats":

"civil servants get appointed to top positions by virtue of their contacts and relationships rather than competency in management. Because of their allegiance to bureaucracy where they return after completion of tenure, they are least concerned about organizational performance and effectiveness. Their major concern centres around their own survival and self-interests."

b). The Ministry of Law and Justice

The government decided to legislate a special charter for the NEA rather than constitute it under other general acts such as the Company Act or the Development Board Act which govern many of the state-owned enterprises. Although it is difficult to rationalize on the specific policy reasons why certain enterprises are

created under one set of general acts as opposed to another in Nepal, some generalizations can be made about special charters. Where greater supervision and control is envisaged by the government and where the services provided are basic to development needs, enterprises tend to be under special charters, e.g. the press; and the same case is true when the enterprise is taken up as a matter of nationalization, e.g. airlines and electricity. However, a research study on the performance of state-owned enterprises in Nepal states:

"Despite the vast range of legal instruments available in Nepal, it is invariably true that laws related to state-owned organizations are only of secondary importance. The problem of primary importance are undoubtedly extra-legal, politico-economic conceptualizations of the role of these organizations in the mixed enterprise system, ministerial supervision, control and policy guidelines, etc. Hence despite the preference for company form of state-owned enterprises in Nepal, it is generally the case that they are no more than semi-departmental instruments of public policy. If disadvantages of the departmental form have been removed, the advantages of company form have hardly been secured." (PPEN, 1980)

The Ministry of Law and Justice (MOLJ) is responsible for approving the draft of the legislation presented by the various ministries before it passes onto the cabinet and the parliament. The MOLJ's main concern is to check that a draft legislation matches with similar established acts and does not contradict the provisions of the constitution of the country. If the sponsoring ministry submits a totally new policy calling for a radical departure from the conventional, long

negotiations are held to justify the need for such clauses and conditions. In the case of the draft legislation of the NEA, the MWR followed a conventional framework rather than the draft prepared by C&L and the outcome was an act which according to the joint secretary of the MOLJ was "the same for all corporate bodies, whether it be an authority like in this case or a council or other average corporations". A traditional framework and contents of the act suited the choice of the MWR as well as fitted into the general pattern of legislation of other corporate bodies as required by the MOLJ. Although due consideration should be given to the fact that as bureaucracies both the MWR and MOLJ were "set in their ways..... and closed to new ideas or outside influences" (Kanter, 1989), the traditionally styled legislation was not introduced for the simple sake of conservatism alone. The document conformed with the definitions shared by the individuals from the two ministries.

The MOLJ as a member of the civil service bureaucracy shared and supported the controlling role of the MWR over the authority because of the NEA's financial dependence on the government and for better liaison with other government ministries and agencies. The joint secretary of the MOLJ interpreted the presence of the minister and other government secretaries in the board as essential for providing support and moral commitment to the NEA:

"The authority could not operate independently as it was going to need constant support from the government - for future capital investments and for repayment of the huge loan which the government had received for construction of power projects that were now being handed over to the authority. Therefore, the involvement of secretaries of the Ministry of Water Resources and Ministry of Finance was essential. Legal matters were involved in tendering local and international jobs and supplies and so the inclusion of the secretary of Ministry of Law and Justice. This kind of thinking moved us to a traditional concept of a board.....The minister was the chairman because the owner is the government and controls the shareholding."

c). The Public Services Commission

Section 78 (3A) of the constitution of Nepal states:

"The Public Services Commission shall be consulted in the making of the rules concerning the conditions of service of the employees of the government owned or controlled corporate bodies or of the organizations owned or controlled by such corporate bodies and in the matter of general principles to be applied in the appointment, promotion, and departmental action within the service or posts of such corporation or organization. The Public Services Commission shall exercise a supervisory control to ensure that those rules and the General Policy have been complied with."

The cabinet decision of the government and the NEA Act clearly specified that the authority was a government-owned and controlled enterprise. Correspondingly, the task of transferring the staff of the ED and the NEC was referred to the Public Services Commission (PSC) after the validation. The role played by the PSC in the personnel management of all state-owned enterprises

including the NEA was justified by the secretary of the PSC:

"There are no other institutions or bodies in Nepal which look after personnel matters of state enterprises. Such bodies have been established in other countries and we at the PSC have been assigned this role. We have to safeguard the interest of general staff and that is our reason for involvement in the NEA."

There was no prior consultation with the PSC on the personnel adjustment and the complexity of the transfer of staff even after the legislation of the authority was finalized. Although the MWR did make several enquiries concerning personnel rules very close to the validation of NEA, no policies or criteria were definite at this stage. The senior engineers from within the electricity industry claimed that the status of the authority was different and higher than the average state-owned enterprises and thus demanded special considerations in the transfer of staff but the PSC strictly resorted to conditions of their General Policy on personnel management. The chairman of the PSC argued that there was no auxiliary provision for an authority in the constitution of the country which allowed special concessions or treatment. Accordingly, the rules and criteria for the staff transfer were worked out initially on the basis of their formal policy.

The staff adjustment was an extremely controversial issue because it entailed the interests of each and every



individual and there were claims and counterclaims from different groups of staff. The staff of the civil service and the state-owned enterprises were guided by different sets of personnel rules and the PSC was authorized and responsible for integrating them into a single entity. Soon after their first set of recommendations was presented to the NEA, the key staff in the PSC realized that their rules would not solve the differences in this situation because various demands were made by the stakeholders and there were genuine problems in merging the two groups of staff together. In addition, politicking by interest groups was a regular feature and conflict was rife. There followed long negotiations between the PSC and key players representing the NEA and it took over two years to come to an agreement and both the interacting groups have had to make compromises and concessions to their interests. The key concern of the PSC as an august, constitutional body was that its decisions should be seen as fair, just and safeguarding the interests of all employees and, therefore, it claimed to have played a balancing role in the proposals and demands put forward by the management of the NEA. But there were also many staff within the NEA who cast doubts on the impartiality of PSC'S actions and decisions.

### Interests and Interpretation of Internal Actors From Within the Industry

The internal actors are members of the old setting NEC and ED who were to be merged into the authority. Much was at stake for these people because their long established order, job and career were being replaced by a new and uncertain situation. The change affected all of them and the costs were directly and immediately felt. This feature of change is explained by Wilson (1966):

"The proponent of a change is likely to see the benefits of the proposal in personal terms and the costs in organizational terms; everyone else is likely to see the benefits in organizational terms and the costs in personal terms."

The starting point of this analysis will be the role played by the managing director (MD) of the NEA in the process of reorganization. The contribution and importance of the leadership role in the successful management of change is a frequently highlighted theme in the literature on organizational change (Guest, 1962; Pettigrew, 1985; Quinn, 1980). In the case of this reorganization, the contribution of the MD was important because of his prior leadership role in the industry as the chief engineer of the ED for a long time which continued with his appointment as the managing director of the NEA. As chief engineer of the ED, HM was the most senior and experienced member of staff in the industry and was very well acquainted with and engaged in the

planning of the reorganization. He was the chief representative of the MWR on all discussions and negotiations with the banks and the consultants and he played a major role in the design of the legislation and the composition of the board.

The relationship between HM and the MWR needs to be examined in terms of the nature and conditions of his appointment. He was a joint secretary in the MWR and appointed to the post of the MD by the government at the recommendation of MWR for a term of four years. His permanent post was retained in the ministry which implied that he was not transferred as the other staff of the ED. His career remained with the ministry as he was to return back after the expiry of his term. His direct superiors were the minister and the secretary of the MWR who not only played an instrumental role in his appointment to the post of MD but were to exercise constant influence in his performance in the NEA and much later still in his career progression in the civil service. They were his foremost and powerful superiors and he needed to take account of this fact throughout his term as MD.

HM was a technical man who had long working experience in the ED, mainly as chief of various development projects. His job as the chief executive of the authority was his first experience of a purely managerial role and leadership of a state-owned enterprise, in this case the largest corporate body in

Nepal. On his appointment, he faced two very important tasks: first, to manage the technical aspects of the industry and to keep the power supply flowing continuously; second, to manage the implementation of the reorganization in terms of structure, staff, and administrative/financial systems. HM stated that his choice was to let the generation and distribution operations managed by the old NEC to continue as in the past because there were risks of disruptions in the supply of electricity if changes were introduced. Moreover, his own performance would be assessed in terms of the reliability of the power supply and services by important external individuals and the general public. The remaining decisions on the reorganization were the keenly contested and controversial issues about the organization structure, transfer of staff from the old organizations and formulation of administrative rules and regulations. HM's prime interest area in the NEA was the future development and expansion of the electricity generation and distribution functions and he took pride in achievements in these areas, such as loans negotiated for the next hydro power projects, loans for transmission projects from the ADB and improvements in the technical design capability, load demand forecasts, and the systematic selection of projects. As for the remaining issues related to the reorganization such as the staff transfer and administration, he regarded these as only a "small part" of the authority which would be sorted out slowly:

"The NEA's prime concern was to provide a continuous power supply and to produce electricity accordingly in time. Therefore on the technical side we have progressed considerably....the remaining administrative part concerns the management of the authority and it will be sorted out in time gradually. We are now considering how to improve the managerial side and develop the organization efficiently."

This kind of disposition on the part of the leadership meant that the implementation of the financial and administrative systems were floundering four years after the setting up of the NEA. This state of affairs led the WB to initiate a new effort at organization development in late 1989 which was classified as the "twinning programme" - a collaboration with the electricity utility of France to strengthen the technical, organizational and managerial capability of NEA and financed by the WB under the terms of a loan for the Arun Hydro-power Project.

Although the secretary of the MWR also participated in the interactions on criteria for staff adjustment with the PSC, it would be naive to assume that he was the sole arbiter to present the case of the NEA. HM as the leader of the authority and directly faced with the problem of staff adjustment was allowed to present his conditions and requirements. HM was keen to protect and promote a few of his very close associates from the old setting in the new authority in the staff adjustment. All the background papers and the proposals for discussion with the PSC were prepared by HM and his few trusted ex-ED subordinates in total confidence and secrecy. Such

stratagems went to the extent of excluding eligible NEC personnel from the posts of director-in-chief and director in the Administration directorate during the period of the provisional staff arrangement which lasted for over two years. The confidentiality maintained by HM and his associates was described by a manager of NEC who was an active protester against the criteria designed for staff adjustment:

"Very few people knew anything about the recommendations proposed by the PSC. It was kept a total secret. At least the directors-in-chief should have been informed but even they were not. We used to know something only at the last stage when they had decided on a certain course of action and this decision was passed at the execution level. Even the manager of central administration was not informed because everything was confidentially handled by the managing director and chief of corporate planning.....They had no experience of personnel management because the Ministry of General Administration would always look into the personnel matters of the ED."

The confidants of HM who were working with him on the design of the criteria for staff adjustment were all engineers with technical jobs in the NEA and they had no previous experience or knowledge about personnel rules and regulations of state-owned enterprises. An under secretary of the Ministry of General Administration who was contracted to advise on staff policies recalled his disapproval at the manner in which the top management organized the staff adjustment:

"The most important thing was that they never considered the necessity of proper personnel management. I do not think they felt personnel management was an important function. Anyone in the organization was considered capable of managing the personnel activities and duties. There was a director for personnel but I doubt if he was capable of doing his work."

The associates of HM consisted of five very close and trusted subordinates who had worked with him earlier in the ED and formed a staunch affiliation. These close associates were given the title of "pancha pandav" by others in the industry, a metaphor referring to the five united and devoted brothers who were the heroes in the epic Hindu myth "the Mahabharat". The MD did well to protect his associates in the new authority as well. It was alleged by many employees of the NEA that the criteria for the lateral entry and performance evaluation in the staff adjustment were designed to match the qualifications of these candidates and to debar any other competitors at the same time. A senior superintendent engineer of MWR who was one of the main critics and opposed to the actions of HM disapproved the favour done to these people:

"What happened with staff adjustment was not institutional development but rather staff development for special people. The main problem with HM was that he trusted only these five people and not anyone else. These five had worked with him very closely in ED and were his trusted and favourites since then. He would not trust anyone else. Maybe because of these five people he managed to survive for the past four years but it's not right not to trust anyone else and doubt the rest of us. Doubt is such a dangerous thing, take the case of Stalin who even killed his own wife."

These associates were also favoured in the allocation of "attractive" and sought after jobs including developmental projects in which HM shared special interest. It was not uncommon for them to manage several important projects while other colleagues of equivalent status complained of inadequate work or were not allowed to undertake the work that was within their sphere of responsibility. For example, one of the "favoured" directors was assigned responsibility for five major development projects in addition to his functional job; whereas a few of the other directors (from the NEC) complained that they did not have enough work load to keep them occupied even during the office hours and were not allocated additional work in spite of requests made to the MD. Likewise, the director of the Generation and Transmission Construction Department pointed out that although it was his responsibility to appoint managers and undertake the construction of projects, he was not allowed to execute his authority and his department was "being assassinated by taking away our key tasks and functions". The MD was a powerful figure within the context of internal matters of the authority.

I now turn to the interests of other members of the old organizations and start with the role played by individuals from the ED in avoiding the reorganization for such a long period. The resistance to any kind of reorganization and a new institutional rearrangement by senior engineers of the ED was the primary reason for the



long delay and inaction. As the dominant group in the industry, they were satisfied with the status quo whereas the change was confusing, disturbing and risky. The validation of the NEA took place ten years after the government first agreed that the institutional arrangement was not appropriate for the power industry. This delay compared with Pettigrew's (1980) statement that "one indicator of the amount of political energy released might be the amount of time taken in making the decision to go ahead with the change". Although it was agreed with the ADB mission very early on that a reorganization was essential for the better operations of the industry, the reluctance to change was greater than what either the ADB or the consultants had anticipated or comprehended. The senior people who were responsible for executing the covenants of the loan agreements were themselves the main forces against change. The reasons for such resistance were sometimes shared with the lending agencies and the consultants but the deeper motives for maintaining the status quo were not always appreciated by them. There were two very serious threats to the interests of the senior engineers from any kind of reorganization. First, the reorganization would alter their status from a civil servant to a state-owned corporate employee and the negative consequences of this change to them were several:

- i. loss of status and prestige which was related to the emotional and social importance of the civil service job

in Nepal; the civil service was regarded as the "King's service" and looked upon by the entire society;

ii. loss of mobility because as a civil servant one could be transferred to any ministry, department or any other government agencies;

iii. loss of career progression because hypothetically any civil servant could rise through the ranks to the post of a secretary of a ministry;

iv. drop in status as a corporate employee because the ED regarded and treated the NEC as only subordinates and never equals.

Secondly, the ED always maintained and controlled the "glamorous" jobs in the power industry which was basically the development function and the NEC was always assigned the "dirty task" of consumer service and distribution. The NEC engineers were cynically referred to by their counterparts in the ED as "engineers who visit the house of ministers to repair and mend fuses". The development activity such as the construction of projects was an attraction to all the engineers in the industry because it offered opportunities for valuable construction experiences, working with expatriate consultants, foreign visits, flexible rules and regulations, recognition and rewards for successful completion of projects by the King, abundance of

resources, and last but not definitely the least, plenty of scope for monetary benefits and fringes. The ED was virtually in exclusive control of all these benefits and advantages, and senior officers from the MWR such as the minister and the secretary were associated as members of the development boards for projects. It was an arrangement mutually beneficial to all the participants and thus the reasons for resistance against any kind of threat. At a later stage when the reorganization was inevitable, the same individuals from the ED were interested in preserving the old benefits in the new arrangement.

The senior engineers of the ED resisted the reorganization but it was not done as direct confrontation with the banks or the consultants. Instead they did not take any initiative to embrace the change. The resistance was asserted in subtle ways rather than by an expression of negative denial to what were logical propositions on organizational development. At least four instances of resistance were discernible:

- i. rejection and disconcern for the proposals of BEI;
- ii. counterproposal to create two bodies rather than a single utility after acceptance of the BEI report;
- iii. deliberately delayed decisions as in selection of consultants, response to consultants' reports, etc.

iv. no seriousness and inaction even after submission of final report by C&L resulting in delay in the passing of the legislation, non-appointment of key staff, rejection of the implementation programme. A senior engineer of the ED described the general feeling towards the reorganization at that time:

"Even at the stage of the final report, there were groups of senior people for and against the reorganization of the industry. The government had given commitment to the bank but nobody thought of this seriously. It was only after the decision of the cabinet to execute the NEA act..... then everybody was concerned about securing positions."

The ADB mission members were often displeased at the lack of action from the ED in spite of early commitment. It would be an understatement to interpret the resistance of these actors as their "inability to know what they would gain from the reorganization" as was expressed by Sieber. Certainly these actors knew what they were to lose in the changed situation and therefore it was in their self-interest "to keep the organization doing the things they have been doing in the past, and doing them in the manner to which they have become accustomed" (Mangham, 1979).

Interestingly there was unanimous support for the planned reorganization of the sector from the NEC and the logical and rational reasons expressed were in terms of performance efficiency of the industry, that is, improvement by bringing together all related functions

within one body. The majority of NEC staff supported the single authority concept and a simple and comprehensive explanation was provided by one of the managers of NEC: "for us, we could not go worse than this in any change programme." This statement sums up the feeling of "no loss" experienced by the NEC personnel as a result of the change. Their interest was not threatened and instead the change would usher in opportunities to share the developmental activities monopolised by the ED for a long time and the area of operation would be expanded offering people more mobility. Even the board members of the NEC considered the reorganization as an opportunity for people to move into a bigger corporation with more scope than in the past.

The general manager of the NEC supported the idea of a single authority because he agreed with the lending agencies that the electricity industry has "a commercial character, everything of this industry has to be operated in commercial principles". He was particularly unhappy about the capital loans taken and used by the ED and his organization being held responsible for the repayment. He conceded that only a single commercial utility could make effective use of the loans and operate the industry profitably:

"Whenever we take a commercial loan for investment from the two main lending banks, we should have the capacity and capability to pay it back. We were unable to display such capability and we were constantly told to increase our efficiency, increase our tariffs, etc. ... In the context of Nepal,

hydro-power is the only tangible and perennial resource and it could generate huge earnings if the electricity industry was operated commercially."

The deputy general manager also lent his support to the creation of a single utility because of the difficulties faced by the NEC in recruiting new engineers and the poor coordination in the activities between the ED and the NEC:

"One of the major problems we faced was that none of the younger engineers used to come to the NEC, they all preferred the ED. The NEC was only a corporate body, didn't have a future, didn't have any projects either. All big projects were grabbed by the ED. If we had one organization, this problem would not exist....The other thing was the ED undertook the projects and handed them back to us after completion for operation. In case of any problem there was always finger-pointing and blaming the faults on the other. We may be blamed for poor maintenance of plants and we claim that faults existed during the construction period or commissioning time. This kind of passing on the buck was frequently there."

The support and preference for one authority from the majority of middle and junior level managers of the NEC was lucidly interpreted by a regional manager:

"The engineers in the ED were most unhappy about the reorganization whereas we at the NEC were quite pleased. After completing our engineering degrees, we were always restricted to service-oriented work such as consumer service, payments from customers, extension of transmission lines, etc. and our career was restricted to these small jobs. The ED engineers were appointed project managers, rubbed shoulders with foreign consultants, got almost all overseas training and travel, and they had infinite scope in their job. We got the leftovers from them, after they completed a project. We were waiting the chance and the reorganization was naturally preferred by us."

The two organizations, the NEC and the ED represented two opposing stances within the power industry, i.e. stability versus change, and the stand taken by each was motivated by self-interest.

After the decision of the government to create a single authority and the choice made by the MWR on the legislation, board composition and the chief executive, the changes concerning the internal details of the organization in terms of structure and staff adjustment were left to the internal stakeholders. The structure was designed by the senior engineers because they were the top management of the old setting and the staff adjustment was worked out by the management of the NEA. These two issues were the focus of attention of all the staff because security of posts was the main interest of all in this merger situation. A higher position in the authority could ensure "personal aggrandizement resulting from upward mobility and increased status" (Schein, 1977). Since nothing was defined yet in terms of rules and regulations, the fluidity of the change situation was open to competitive interests and interpretations. The situation was a "golden opportunity for a phase of limbo", in the words of John (C&L).

An alternate view which looks at organization structure as an outcome of contest for control and advantage can be used to explain the design of the NEA.

Such an approach is interpreted as the politics of organization structure by Pfeffer (1978):

"The design of an organization, its structure, is first and foremost the system of control and authority by which the organization is controlled. In the organizational structure, decision discretion is allocated to various positions and the distribution of formal authority is established....Thus, organization structures create formal power and authority by designing certain decisions and create informal power through the effect on information and communication structures within the organization. Organizational structure is a picture of the governance of the organization and a determinant of who controls and decides organizational activities."

The selection made by individuals belonging to the "dominant coalition" (Pfeffer, 1981) of the organization prevailed in the design of the authority as well. Arguing along the same lines, Child (1972) mentions that neither size and technology nor environmental requirements are so binding in most organizations as to remove the potential for choice of the structural arrangements by those in power in the organization.

The process of staff adjustment was permeated by actions of individuals who were trying to promote and secure positions in the organization structure. All in all this process was marked by conflicts, contests, pulling and hauling, compromises, etc. Right from the very inception of the NEA, there was a concerted claim from the engineers of the ED that they should not be equated with the NEC in staff adjustment. This feeling was also shared by their colleagues in the MWR and hence



a large number of ED employees were assigned to higher posts during the provisional staff arrangement. Their demand for preferential treatment was based on the following reasons shared by majority of the ED employees:

a. The ED was guided by the civil service personnel rules in which promotion was very slow and less frequently done. A creation of a new post had to be approved by the MWR, Ministry of General Administration, Ministry of Finance and finally the promotion was conducted by the PSC. The entire process was lengthy and rigorous. Whereas the NEC as an autonomous body only needed the approval of its board to create new positions and the management could execute the promotion procedures; people were promoted faster in a corporate body.

b. Contemporaries who joined the industry at the same time were in different grades in the two organizations. Although both organizations followed a similar grade system, the ED refused to accept that the civil service grading pattern was equivalent to that of a state-owned enterprise.

c. The transfer of their service into a corporate body was looked upon as a personal loss by the employees of the ED because they would lose the status, prestige, opportunities, etc. associated with the civil service. Although there was no commensurate compensation for this loss, it was argued that the transfer could be made

"slightly attractive" by offering higher levels, as consolation to them. In the case of the NEC, they saw no loss at all because the move was from one corporate body to another.

d. The ED was always responsible for the more important development functions as compared to the "secondary" functions performed by the NEC. They claimed that the people doing the more vital work should be treated favourably.

e. Probably the most serious grievance was raised against the promotion executed by the NEC prior to the validation of the authority. The promotion process which began about fifteen months before the inception of the NEA continued until the very last day of the NEC. Altogether some one hundred professionals were promoted and about half of them were in senior and middle level positions. The ED staff treated this as a deliberate "game" played by the NEC to put themselves in an advantageous position in the authority.

The NEC keenly pursued a programme of restructuring and carried out a series of staff promotions while C&L was still working out the details of the NEA. The general manager proposed an expansion and changes in the structure which created new positions (including one for himself and many of his senior staff). He argued that

such a structural change was absolutely essential for operation and better performance of the NEC:

"I prepared an organization structure which I as the chief executive believed was essential for the operations of the NEC and I wanted to implement it. It is not for me to put restrictions on my own organization because the NEA was being established in the future.....I made an organization which fits into the NEA, that can be easily assimilated. Whereas the ED has taken the attitude that the NEA will not be created and they did not take any initiative."

This proposal for restructuring was approved by the board of directors of the NEC because its main concern was the requirement of the organization as requested by the general manager. One of the board members who was in charge of a sub-committee established to study the proposed changes explained their support for the redesign of the structure and the promotion of staff:

"The NEC did not follow any form of manpower planning and there was a feeling that something had to be done. I think to that extent I made my contribution telling them that people should be promoted, people should be trained. We stressed mobility and career progression. We were confident that this would be adjusted later in the NEA.....The rationale, articulation and paraphernalia of the creation of the NEA by merger was not well known to us all. We said why shouldn't the NEC be on its own till it was really merged. Let us take care of our own organization because there is so much to be done in terms of manpower development and career progression. There was lot of frustration due to lack of promotion and this took priority."

The chairman of the NEC who was also the secretary of the MWR supported the redesign and promotion for all these reasons and, in addition, he argued that the ED employees

had taken "all advantages and benefits in the industry in the past". He was convinced that the changes in the NEC were justifiable. A series of promotions was initiated which became a big issue of conflict and grievance among the ED staff later on in the NEA. Fortunately for the employees of the ED, they were given sympathetic support by their new minister who seemed to disapprove the promotion that had taken place:

"The promotion that took place in the old electricity corporation was I think a bureaucratic trick. They did try to get an advantage for themselves but in the actual appointment that took place in the NEA the ED people were given a lot of leeway."

The final staff adjustment was made in the context of all these conflicting interests and the outcome was a negotiated settlement. It was a compromise solution in which the demands of both groups were to some extent taken into account; the solutions were interpreted by the decision-makers who in turn were influenced by pressures from both sides.

All the actors were not satisfied with the outcome of the staff adjustment even though most of them were transferred into higher levels in the final settlement. There was a persistent demand from a large number of ED employees to return back to the MWR rather than transfer their services and careers into a state-owned enterprise. There was no alternative option to the disgruntled NEC staff but to remain in the authority because their old

organization ceased to exist after the validation of the NEA. The case was different for some of the ED employees who had the "option to exist" (Hirschman, 1970), to escape from an objectionable state of affairs because as civil servants their employer was the government. The creation of a special unit, the hydro-power project pool, in the MWR was an outcome of interests of engineers from the ED who mobilized and induced the government and other external authorities to take such a decision. In the context of the creation and operation of a state-owned enterprise, there were other external centres and sources of influence who were able to substantially affect or change management's decisions.

### Summary

The reorganization of the electricity industry as envisaged by the two lending agencies for improved efficiency and performance, and achievement of both sectoral and national goals has been interpreted as a "rational model" to organizational change and development. The management consultants supported and shared the assumptions of the lending agencies and their planned change proposals were guided by "rational problem solving" objectives. A structural approach to organizational change was recommended for the achievement of efficiency and goals. Their prescriptive planned changes could not explain what actually happened during the change and the dynamics behind the process of change,

especially in view of the fact that all their recommendations were considerably modified during the implementation. My analysis has identified the key stakeholders who were directly involved in the reorganization, and their interests and definitions which they tried to promote and protect. The stakeholders have been broadly classified into two categories: external and internal. The external stakeholders were the "outsiders" in the electricity industry and comprised the lending agencies, the parent ministry, and other related government ministries and agencies. The internal stakeholders were the members from within the industry, that is the staff of the ED and the NEC. The change process and the outcomes can be interpreted as the results of actions and interactions among these stakeholders who upheld very different definitions as they tried to secure their interests. Thus, the analysis suggests that a political model may be more appropriate to explain the dynamics of process of change in the context of the state-owned enterprise. The next chapter will review the negotiated order perspective and relate it to the political model of change.

## CHAPTER FIVE

### NEGOTIATION PROCESS AND NEGOTIATED ORDER THEORY

The discussion of the previous chapter clearly suggests that the process of organizational change in the electricity industry was far divorced from the planned rational goals and programmes and instead change was more accurately explained and understood in terms of political processes. I have stated that the planned change programmes as prepared by the consultants were guided by "structural determinism" in the sense that their main focus was on structural modifications for improved goal achievement. In line with the perspective dominating the rationalistic and functional paradigm, they adopted "static structural-functional and rational-bureaucratic explanations" (Day and Day, 1977) of complex organizations and consequently an equally rational model for explaining human behaviour in the context of change. Even in the situation of a major radical change such as a merger and a reorganization of the electricity industry, the participating people were treated as relatively deterministic and passive characters positively responding to the demands and conditions of the new situation.

Although government decision-making in Nepal is usually seen as a form of unilateral decree and such was the case in this reorganization, the process of such decision-making cannot be interpreted as guided by planned rational objectives. It was stated in the previous chapter that the government could not be considered as a single monolithic unit making value maximizing decisions and choices among several calculated alternatives and in accordance to the rational recommendations prescribed by the consultants. A rather different picture emerged where several legal bodies, groups and individuals from both within and outside the industry have direct interests in the outcome of the change programme and in its implementation. Additionally, the people from inside the industry were not passive individuals just because they were employed in a government-owned and controlled industry. The process of change was influenced by these bodies and individuals who were explained as stakeholders and, consequently, the change decisions and choices may be seen as being a process of negotiation. Given the political character of change in which there was the presence of several vested interests and conflicts over different interpretations, it was inevitable that any final outcome would have to be negotiated. This chapter will present further theoretical discussions into the politics of change, undertake a review and critique of the negotiated order theory, and lastly suggest a conceptual framework for the development of the



negotiated order theory. The negotiated order is explained here in relation to an organizational change situation in the context of a state-owned enterprise rather than the common application of this theory to the study of creation of a social order at a particular point in time by most of the other researchers. I look upon negotiation as an important feature in the process of change which arises from the political dynamics of a change situation. Such a relationship is mentioned by Mangham (1978):

"Order and change may thus be seen to be the products of negotiation, the result of pulling and hauling that constitute the political bargaining process which occurs between individuals and groups as they struggle to achieve their goals and objectives in association with, or at the expense of, others."

### **The Politics of Change**

A framework of analysis which takes into account the role and interests of the external and internal stakeholders seems to present an accurate descriptive account of the change process and highlights the overwhelming prevalence of political dynamics in change. The change process can be explained in terms of organizational politics which according to Morgan (1986) arise from the "relations between interests, conflicts and power". Organizational politics arise when people think differently and want to act differently and this

diversity in turn creates a tension that must be resolved through political means. Cyert and March (1963) viewed organizations as a coalition of different interest groups in which there is the potential for internal goals conflict inherent in a coalition of diverse individual groups. Pfeffer (1981) states that organizational politics emerge out of interests and involve various activities to obtain one's preferred outcome. Similarly, the interest of the stakeholders was the main determining factor in the situation of uncertainty created by the reorganization and individuals resorted to various actions and interactions to secure their desired outcomes.

Two conceptual assumptions are fundamental to understanding and explaining organizational politics and politics of change:

- (i) a pluralist view of organization
- (ii) a model of man: an anti-deterministic stance.

(i). A Pluralist View of Organization

I have already explained that the government was not a single body but rather constituted several independent units with legal power and responsibilities; likewise, many other interest groups from within the industry made divergent claims in the preparation and execution of the

planned changes. Burrell and Morgan (1979) refer to the development of a pluralist theory of organization which lays the basis for the analysis of an organization as a pluralist political system in which "organizations and their environment are viewed principally as arenas of conflict between individuals and groups whose activities are oriented towards the achievement of their personal goals, values and interests". They draw a sharp contrast between the pluralist and unitary views as reflected in three sets of assumption relating to interests, conflicts and power. Of particular relevance are the features attributed to the unitary view of organizations which tend to be adopted in rational planned change by management consultants.

"The unitary view of organization is epitomised in the classical theory of organisation which tends to view the organization as a machine geared to the achievement of formal goals. From this point of view the organization is an instrument of purposive rationality, which directs its members in an effective and efficient manner. The members of the organization are viewed as responding to incentives which secure their commitment to the formal goals of the organization. The enterprise is thus envisaged as a unitary phenomena in which the goals of all members can be simultaneously satisfied; the task of management is to ensure that the organization is appropriately structured, directed and controlled so that effective operation is achieved." (Burrell and Morgan, op.cit.)

Fox (1966) differentiates between the unitary view of organizations which tend to stress that an organization is a cooperative enterprise united in the pursuit of a common goal and the pluralist view which stresses the diversity of individual interests and goals.

Burrell and Morgan (op. cit.) state that the formal goals of an organization from a pluralist view have the status of "little more than a legitimising facade, an umbrella under which a host of individuals and group interests are pursued as an end in themselves". Conflict must be institutionalised in some way so that it plays a constructive role within the context of the organization as a whole. In conclusion, they view the organization as a "plurality of power holders who derive their influence from a plurality of sources" and the power of various groups as a crucial variable for understanding what happens in everyday affairs; how conflicts of interests are solved. Morgan (op.cit.) continues with the comparison between the pluralist perspective as opposed to the unitary and radical views of organizations. The unitary view pictures society as "an integrated whole where the interests of individuals and society are synonymous ..... and the individuals should place the interests of the state above all else" and the radical view presents society as comprising "antagonistic class interests, characterized by deep-rooted social and political cleavages, and held together as much by coercion as by consent". In contrast, the pluralist vision of society emphasizes the plural nature of the interests, conflicts and sources of power that shape organizational life. The term "pluralism" is borrowed from political science to characterize "idealized kinds of liberal democracies where potentially authoritarian tendencies are held in check by the free interplay of

interest groups that have a stake in government". The planned reorganization proposals of the consultants tend to match with the unitary view because the electricity industry was symbolised as an instrument of "purposive rationality" and its members were considered as responding to incentives and their commitment to organizational goals were assumed to be secure.

Although a critique of the development of the pluralist theory is beyond the scope of this research, the relevance of this perspective to understanding the process of change is meaningful. More importantly this view presents a contrary picture against the unitary framework which seems to have guided the work of organization development practitioners generally. They assume that formal goals are mutually accepted by everyone and interpersonal relationships are harmonious, a situation which is a far cry from the reality of most organizations. Many organization theorists have traditionally adopted a unitary view of organization and it is only since the early 1960's that an increasing number of social theorists have concerned themselves with the development of theoretical perspectives which are essentially pluralist in nature according to Burrell and Morgan. The works of Peter Blau, Michel Crozier and Etzioni all touch upon some aspects of the pluralist perspective and they are critical of the assumptions underlying the unitary view. Fox (op. cit.) has been prominent in advocating a pluralistic framework in order

to understand organizations and he doubts the unitary assumption of commonly shared goals by members of the organization:

"In the sense that the groups are mutually dependent they may be said to have a common interest in the survival of the whole of which they are parts. But this is essentially a remote, long-term consideration which enters little into the day-to-day conduct of the organization and cannot provide that harmony of operational objectives and methods for which managers naturally yearn."

Mangham (op.cit.) states that a pluralistic view of organization is essential for an appreciation of the politics of change:

"Pluralism is a fact of organizational life just as it is a fact of life in society. People bring different perspective and different experiences to bear in any particular social situation; they also bring different expectations and seek to achieve different goals and objectives.....Industrial societies are composed of such a profusion of groups, societies, alliances, coalitions and organizations that pluralism is the order of the day and no one world view is capable of totally shutting out all others."

Similarly Pettigrew's work is focused on explaining organizational change as a result of actions of interest groups and his various works present a pluralist theory of decision-making. On interest groups and change, he writes:

"The possibilities and limitations of change in any organization are influenced by the history of attitudes and relationships between interest groups in and outside the firm, and by the mobilisation of support for a change within the power structure at any point of time.....Changes are also a product of processes which recognise historical and continuing struggles for power and status as motive forces, and consider which interest groups and individuals may

gain and lose as proposed changes surface, receive attention, are consolidated and implemented, or fall from grace before they ever get off the ground." (Pettigrew, 1985)

A pluralist view of organization for the analysis of the processes of reorganization and the creation of the NEA is adopted because it not only recognises the multiplicity of stakeholders but also legitimatizes the divergent claims made in the context of change. A pluralist view justifies the processes by which the diverse claims were incorporated into the change decisions. These claims were the reasons for much of the disagreement and conflict which led to negotiations for final decisions and choices.

(ii). A Model of Man: An Anti-Deterministic Stance

Every social-scientific theory makes certain assumptions about human nature, that is, they assume a specific model of man. Burrell and Morgan (op.cit.) refer to this as the voluntarism - determinism debate:

"At one extreme we can identify a determinist view which regards man and his activities as being completely determined by the situation or 'environment' in which he is located. At another extreme we can identify the voluntarist view that man is completely autonomous and free-willed."

Hollis (1977) writing exclusively on models of man comments:

"All social theorists and philosophers who seek to explain human action have a 'model of man', a metaphysical view of human nature. Some make man a plastic creature of nature and nurture, some present him as the autonomous creator of his social world, some offer a compromise."

Much of the traditional organization theories originating from the functional paradigm have adopted a deterministic view on human nature. Zey-Ferrell (1981) reviews the "dominant perspective" on organizations by the structuralist theorists and suggests that they treat humans as "nonvolitional, spongelike, malleable organisms, who absorb and adapt to their environments rather than volitional actors pursuing self-interests....humans are further implicitly viewed as relatively powerless, and as determined and controlled by organizations". The importance given to the organization rather than the people is another feature of the predominant view according to Greenfield (1973). Two critical assumptions underlie this view of organizations: one, organizations exist apart from people; two, the goals of an organization are independent of those held by individuals within it. He sees many organization theories as dealing "with human response to organization rather than with human activity in creating organizations". Based on these assumptions, a line of reasoning emerges which proposes that the way to improve organizations is to redesign and direct them toward goals. Organizational change, therefore, becomes focused on the shape of the organization for organizational improvement, according to Greenfield (op. cit.):



"Although there is dispute about what to change within the organization, there is usually agreement that organizations are entities capable of improvements and that organizations and individuals have goals which would be better achieved if the organizations were smaller, less bureaucratic, healthier, more structures, or more something, which would change their internal structure or processes."

Criticism against the "determinist" assumptions on human behaviour of the structuralist approaches has been raised by theorists who have supported a "voluntary" model of man. Weick (1969) finds fault in treating human beings as passive and deterministic. Argyris (1972) comments that the structuralist cannot develop a theory of organization without a theory of human nature and without assumptions and principles of the psychology of individual participants, specifically an analysis of the meanings of actions. Silverman (1970) states that "the positivistic explanations, which assert that action is determined by external and constraining social and non-social forces, are inadmissible".

A model of man which gives due respect to the social reality that humans can shape and mould their destiny as well as the social structures in which they exist has been developed in the intellectual traditions of the action frame of reference and interactionism. The action perspective holds that organizations cannot be understood unless the social actions which constitute organizations and the meanings behind these actions reflected by analyzing attitudes, beliefs, and values of the

participants are studied (as reflected in the works of Schutz, 1962; Berger and Luckmann, 1967; and Goffman, 1959). Blumer (1969) holds a view of man as capable of interaction, choice, appraisal and decision. Developing on the idea of Mead, Blumer (op. cit.) defined symbolic interactionism as involving "interpretation, or ascertaining the meaning of the action or remarks of the other person, and definition, or conveying indications to the other person as to how he is to act. Human association consists of a process of such interpretation and definition. Through this process the participants fit their own acts to the ongoing acts of one another and guide others in doing so". Man is, therefore, a creator of his own world. Looking from this paradigm human action is not caused or released but actually emerges from the meaning given to a situation by the individuals "as a result of the interpretive process which occurs continuously and constantly as the individual moves from situation to situation" (Hall, 1972).

A political perspective to human behaviour is based on a model of man with an ability to interpret a situation and create behaviour in response accordingly. Thus, man is able to strategize, to manipulate, to cheat and to deceive other people and also to cooperate, to help, to guide and to advice other people, according to Mangham (op.cit.). He advocates a model of man for the study of organization which is an accurate reflection of man experienced in everyday life:

"My metaphor for man is man; I am proposing that in order to understand organizations and in order to develop ideas for action people should be treated as if they were human beings as we know and understand them in everyday life. I submit that we do not know and understand people as machines, as plants or as systems, rather we know and understand them as unique entities, as specifically human beings". (Mangham, op.cit.)

Such a simple but precise assumption of human nature also allows an understanding of man as a self-interested operator which is naturally reflected in his political behaviour. People frequently take actions to make self-benefits and gains because they are able to sense, perceive, interpret, choose and adapt in social situations. People decide what is the best course of action to be taken in a situation not on the basis of sanctioned behaviour norms or rules or regulations. Boissevain (1974) describes that man, in addition to being a moral person, is also out for himself and essentially this is no more than a "common sense" model. He particularly stresses the self-interest motive of man:

"Within the social, cultural and ecological framework so established, people decide their course of action on the basis of what is best for themselves, and not only, as structural-functionalists would have us believe, on the basis of accepted and sanctioned norms of behaviour. Man is thus also a manipulator, a self-interested operator, as well as a moral being. He is constantly trying to better or to maintain his position by choosing between alternative courses of action. But since he is dependent on others, it is impossible for him to achieve his own self-interest unless he takes others into account and can demonstrate that his action in some way benefits or does not harm them. Naked motives of crude self interest can never be brought forward to justify action to others. Pragmatic action is dressed up in normative clothes to make it acceptable." (Boissevain, op. cit.)

Referring to the process of reorganization, these two fundamental assumptions offer further explanation to the political nature of change. Several stakeholders existed within and outside the electricity industry and they all had direct interest and influence in the operation and reorganization of the industry which is a clear manifestation of the pluralistic nature of organizations. The stakeholders were represented by individuals who confronted the change situation with their own interpretations and definitions of the situation. Their political roles and behaviour can hardly be contained in deterministic explanations and assumptions of the traditional school. The non-acceptance of the planned changes and the final change decisions and outcomes can be explained in terms of the social actions and choices of the dominant actors in the industry.

How were the stakeholders able to implement the planned reorganization in spite of the divergent claims and often contradictory positions and expectations? How did the diverse group of individuals come to terms with each other's actions in spite of the conflicting interests? The answers to these questions are found within the pluralist perspective which also sets limitations to political actions. A pluralist view need not necessarily imply antagonistic class interests leading to total disorder and chaos. It accepts the inevitability of conflicts and politics but conflict is seen as having its limits. Crozier (1964) sees power

struggles in organizations being limited by certain stabilising factors, such as the need to maintain minimum standards of performance efficiency, to maintain working interpersonal relationships, to live together and finally to share mutual privilege, which ensures that organizations continue as on-going concerns. Such continuity and creation of unity out of diversity is attained through a process of bargaining and negotiation and this issue is well expounded by Morgan (1986):

"The organization as a whole is thus often obliged to function with a minimum kind of consensus. This allows the organization to survive while recognizing the diversity of the aims and aspirations of its members. The organization often has to be content with satisfactory rather than optimal solutions to problems, with negotiation and compromise becoming more important than technical rationality...The pluralist vision is of a society where different groups bargain and compete for a share in the balance of power and use their influence to realize Aristotle's ideal of politics: a negotiated order that creates unity out of diversity."

In the case of this reorganization, I shall argue that every decision seemed to be couched in politics, and negotiation among agents representing stakeholders was the key process in the formulation and implementation of the change. The dominant role of negotiation in organizational change is discussed by Warmington et al. (1977):

"Changes in the organization are the observable consequences of a complex process of negotiation, compromise modification...(changes) are the outcome of a long series of constrained but vaguely defined strategies negotiated between various groups and coalition with frequently conflicting interests and outlook."

The reorganization not only raised a diversity of interests and conflicts but it terminated a social order that had long prevailed and been accepted by the main members of the industry. The change demanded radical departure from the established structure and practices. Kanter (1989) identifies discontinuity, disorder, and distractions as the by-products of significant organizational restructuring which produces a "window of vulnerability". The reorganization, while destroying an order of an old setting, also created the need for a new order to be worked out by the old constituents. The relationship between change and order was discussed by Mead (1936) when he stressed the need to create orderly and directed social change:

"To bring about change is seemingly to destroy the given order, and yet society does and must change. That is the problem, to incorporate the method of change into the order of society itself".

### **Negotiated Order Theory**

A few of the earlier studies contained selected issues that had a direct bearing on the negotiated order theory (Becker, Geer, Hughes, and Strauss, 1961; Bucher and Strauss, 1961; Davis, 1963; Hall, 1946, 1948, 1949; Hughes, 1945, 1958; Roth, 1963; Smith, 1955). Charlton and Maines (1984) traced the treatment of the negotiated order concept in the work of various theorists prior to Strauss: Mead (1932) in his chapter on "Society" in

Mind, Self and Society and in his discussion of the linkage between past and present (Mead, 1929); Hughes (1958) in his discussion on occupations; Long (1958) in his analysis of community as an ecology of games; Dalton (1959) in his examination of the ways managers manage; and Goffman (1961) in his treatment of the role of total institutions. However, the pioneering work of Strauss and friends (Schatzman, Bucher, Ehrlich, and Sabshin) which was published in 1963 is merited as the most comprehensive presentation of the theory. They drew their inspiration from Mead who had written about the relationship between change and order and thus they stated in their work:

"..order is something at which members of any society, any organization, must work. For the shared agreements, the binding contracts - which constitute the grounds for an expectable, nonsurprising, taken-for-granted, even ruled orderliness - are not binding and shared for all time. Contracts, understandings, agreements, rules - all have appended to them a temporal clause. That clause may or may not be explicitly discussed by the contracting parties, and the terminal date of agreement may or may not be made specific; but none can be binding forever - even if the parties believe it so, unforeseen consequences of acting on the agreements would force eventual confrontation. Review is called for, whether the outcome of review be rejection or revision, or what not. In short, the base of concerted action (social order) must be reconstituted continually; or as remarked above, "worked out". Such considerations have led us to emphasize the importance of negotiation - the process of give-and-take, of diplomacy, of bargaining - which characterizes organizational life." (Strauss and Others, 1963)

Strauss et al. maintain that social organizations are negotiated order from their study of two psychiatric

hospitals. They maintain that order is not automatic but instead "must be reconstituted continually". They were concerned about explaining how elements and processes of change fit together with those of stability and the "way order and change fit together, they argued, is through processes of negotiation" (Maines and Charlton, 1985). They recognized the stable features of an organization and those features such as rules and policies, work groups, hierarchies and divisions of labour, ideologies, career lines and organization goals were regarded as the organizational background through which and within which people interact on a daily basis and attempt to get the work done. There were ambiguities inherent in an organization which required negotiations for organizational work to take place. As a consequence, they noticed that everyone seemed to be negotiating about something - they give and take, make margins, stake claims, make counter demands and so forth. Maines and Charlton (op. cit.) describe the nature of negotiation considered by Strauss and friends:

"The negotiations may be explicit or implicit, but through them the participants reach understandings about how work will be done. If the structure of the organization is the background, then these negotiation processes are seen as the foreground. Negotiations occur when rules and policies are not inclusive, when there are disagreements, when there is uncertainty and when changes are introduced. And, negotiations can breed further negotiations. When new understandings are reached, they inevitably affect previous tangential agreements. These negotiative processes are the means by which the features of an organization are created."



So central did this negotiation seem to the events being studied that Strauss and friends specifically identified negotiation as a key concept and coined the term "negotiated order". They concluded that the social order of a hospital was a combination of rules and policies, along with agreements, understandings, pacts, contracts, and other working agreements. Their focus of organizational analysis was on the negotiative processes and particularly on the interactions between people which constituted the hospital structure and the hospital order.

The acclaimed review of negotiated order theory by Day and Day (1977) acknowledges two major components of a social theory that are lucidly accounted for in the work of Strauss et al., that is, the philosophical assumptions regarding the nature of man and the nature of social reality. People are guided by different orientation and interests and given the inadequacy of formal rules and structure to govern the organizational activities, they develop tacit agreements and unofficial arrangements that enable them to carry out their work. The individuals in organizations play an active, self-conscious role in the shaping of the social order and their day-to-day interactions, agreements, temporary refusals and changing definitions of situations are of paramount importance. As for the social reality, the negotiated order theory downplays the notion of organizations as fixed, rather rigid systems which are highly constrained by strict

rules, regulations, goals and hierarchical chains of command in contrast to the assumptions of the structural-functional and rational bureaucratic theories of complex organizations. Instead it accentuates the following characteristics of organization according to Day and Day (op. cit.):

"the fluid, continuously emerging qualities of the organization, the changing web of interactions woven among its members, and it suggests that order is something at which the members of the organization must constantly work at. Consequently, conflict and change are just as much a part of the organizational life as consensus and stability. Organizations are thus viewed as complex and highly fragile social constructions of reality which are subject to the numerous temporal, spatial, and situational events occurring both internally and externally."

Strauss (1978) writing almost twenty years later continues to maintain that negotiation is of much importance in human affairs and that it is at the "heart" of studying social order. He reiterates that no social order would be conceivable without some form of negotiations. He reviews the work of established social scientists such as Goffman, Gouldner, Blau, etc. who have all written about social order and analyses their assumptions on order and negotiation in their respective studies to prove his own position. He argues that it is important to recognize that their conception leads them either to overlook or misconstrue their data on negotiation and consequently one could question the contemporary perspectives on social order and social change. He goes on to recommend three points for any

"far-reaching" study of negotiations: first, data on negotiation can offer a useful critique of the theorizing done; second, negotiation has to be analyzed in relation to social order; third, negotiation processes are entwined with other processes and must be studied together. It is essential to point out that Strauss was not stating that everything in an organization is always being negotiated but that an understanding of negotiation processes and their bearing on social orders might provide important insights into how social orders are maintained, how they change and how structural limitations interact with the capacity of humans to reconstruct their worlds creatively.

Strauss (op. cit.) developed a paradigm, that is, a theoretical scheme through which negotiations and the negotiated order might be better examined and understood. In presenting such a paradigm, he was reviewing and developing concepts that were first presented two decades earlier and he was also responding to criticism of his original work. Strauss uses three central concepts in his paradigm through which the negotiated order can be investigated:

a. Negotiation: refers to the actual types of interactions engaged in by participants and the strategies used;

b. Structural Context: refers to the larger salient structural properties that bear on the negotiation, such as the law, state, social class, etc.

c. Negotiation Context: refers to the structural properties entering very directly as conditions into the course of the negotiation itself, such as the dimension of power, status, options, etc.

He emphasizes that although the structural context is larger and more encompassing than the negotiation context, the lines of impact can run either way. Changes in the former may impact the latter and vice versa. Contexts or the results of negotiations can bring changes in the negotiation context and set the tone for future negotiations. Strauss demonstrates the application of this paradigm by using it in the analysis of eleven case studies drawn from various research publications. These cases vary considerably in social settings, organizational scale, time scale and the types of negotiations. For example, international negotiation for a durable structure of Benelux; antagonistic negotiations between the U.S.A and the Soviet Union over the Balkans; negotiations between insurance companies and claimants; and silent bargains in geriatric wards.

The negotiated order theory has generated meaningful research and writings and Fine (1984) acknowledges that few images have had a more profound and sustained impact on the sociological writings than Strauss and colleagues'

depiction of the negotiated order in two psychiatric hospitals. Many research studies carried out after the publication of the negotiated order theory in 1963 have concentrated on refuting the deterministic stance taken by the traditional functionalist view of organization and the notion of structurally-determined behaviour in organization. In its place they have proposed negotiations by actors as the important organizational process. Stelling and Bucher's (1972) examination of several hospital wards challenged the traditional rational-bureaucratic conception of organizational authority and argued that the bureaucratic model could not explain day-to-day processes of social control. They recommended political processes as more important for explaining social control and they propose the concept of elastic autonomy, accountability, and monitoring as building blocks of a framework for analyzing social control in organization which is similar to earlier research on negotiated order of organizations. Mannings' (1977) analysis of two police departments showed that rules have a fictional character and thus negotiations were used in decision-making by members to manipulate the situations to their advantages. Freidson (1976) contended that divisions of labour are made up of social interaction consisting of negotiations. Denzin's (1977) study of negotiation in American liquor industry addresses two important elements of the negotiated order perspective. He shows how a current set of structural arrangements came about through a historical process that

involved negotiations as a central feature. He then describes how negotiation processes serve to maintain the social order in the industry. The structural context of the industry is a consequence of previous negotiations involving the distillers, the government, the public, the wholesalers and tavern owners, i.e. the five tier system. The feature of the structural context was different at various points along the historical process.

The best part of the research carried out after the publication of Strauss' book Negotiations has taken up certain specific issue/issues corresponding to his paradigm. In a special issue of Urban Life (Volume 11, Number 3, October 1982), Maines (1982) refers to the work done so far and also introduces seven research articles contained in the issue. Maines acknowledges that the greatest utility of the paradigm is in linking negotiations and their contexts to social orders, that is, "it is a sociological framework that attempts to improve our understanding of social orders and social organizations". He also credits the paradigm for stimulating a significant amount of further research and for studying issues of power, organization structure, historical processes, resource mobilization as aspects of negotiated order. Maines and Charlton (op. cit.) identify four empirical investigations which illustrate the application and potential of the perspective for analysis of organizations other than research on hospitals. The utility of the perspective is its capacity to highlight

the unique features and the setting of the four varied case studies. Several empirical studies that have contributed to the paradigm and have particular relevance to understanding negotiations in change are discussed here.

Busch's (1982) research on the history of publicly supported agricultural research and experiment station show how inextricably negotiation and their contexts are linked. A dialectical relationship prevailed between negotiations and historically produced and embedded structures and contexts. The structural conditions stimulate negotiations which then shape subsequent negotiations. Busch made four concluding observations:

- a. Negotiations might lead to forming or modifying structures that provide little or no opportunity for later negotiation.
- b. Once a formal organization is created, it enters into the negotiation process itself and in ways different than intended.
- c. Dominant parties may restrict the range of topics subject to negotiation.
- d. Creating a formal organization may shift the location of certain negotiations from the outside to the inside.

Hall and Spencer-Hall (1980) study two school districts in order to investigate the extent to which the

negotiated order framework can explain the organizations of these two school systems. Their study contributes to a general understanding of conditions that give rise to or resist negotiations. They look at both the structural and negotiation contexts of negotiations over several issues but pay particular detail to negotiations over salaries for teachers in both districts. They find differences in the overall pattern of negotiations in the two school systems and go on to suggest the circumstances that affect the occurrence and extent of negotiations:

a. Negotiations will occur in situations characterized by change, uncertainty and ambiguity, disagreement, ideological diversity, newness and inexperience, and problematic coordination.

b. Activities that are variable, individualized, publicly performed, and that involve team-work and coordination will show more negotiation than those that are routine, performed individually, and in isolation.

c. The greater the size and more complex the organization, the greater the degree of negotiation.....greater complexity will probably create more sub-interests that differ with those at the top.

d. Equality, broader division of power and efficaciousness are conducive to negotiation while strong degrees of asymmetry, concentration of power and fatalism are not.



e. Leadership that delegates authority, tolerates individuality and the development of semi-autonomous programmes, favours compromise over confrontation, and defines itself as a mediator will encourage negotiations more than leadership that centralizes authority, discourages innovation and development, and practices domination.

f. Professionals in organizations are more likely to engage in negotiations than semi-professionals.

g. The greater the focus of organizational attention and commitment of resources, the less the degree of negotiation, particularly if the issue involves the external environment.

Maines (1982) commends Hall and Spencer-Hall's conclusion on conditions giving rise to or preventing negotiations because he believes that such an approach has the most promising potential for contributing to the development of a general theory of negotiation.

Kleinman's (1982) study of a holistic health centre addresses Strauss's suggestion that actors have implicit theories of negotiation which they bring to the negotiation arena and these assumptions have real consequences on the process of negotiation, on the very structure of negotiation context. The negotiations of the board members of a holist centre were examined. These members were split ideologically between those who

embraced an alternative conception and those who embraced a conventional conception of what the organization was and should be. These differences led to problems in deciding who has a legitimate right to negotiate, the proper form of negotiation and the issues over which negotiation should be conducted. Kleinman remarks that since members were holding on to two discrepant conceptions of negotiations, "they could not create, once and for all, an assumed context in which to negotiate, a set of assumptions that they could use as a basis for getting on with other business". In addition, the persistence of these dual conceptions and the dissatisfaction they produced were also the causes of a high turnover rate among the board members.

Strauss (1982) applies his own principles of the paradigm to the field of interorganizational relation and extends the concept of structural context. He includes a broader definition of social world, intersection of units of organization and industries encompassing organizations. He asserts that "every organization requires other organizations to implement its projects, programmes and even routine activities: to get itself serviced, perhaps to get itself financially or politically off the ground, to swap technology and ideas, to have others purchase its products or services, perhaps to fight against common enemies". All such interorganizational arrangements can be instituted and maintained only through negotiations, as also indicated

by O'Toole and O'Toole (1981). Strauss explores negotiations by examining the lines of work that constitute interorganizational linkages, the matrix of organizations in which the organization is embedded and the arenas of participation in which the organizations are related to each other. With this framework, he examines the interorganizational arrangements and the negotiations among Oak Ridge National Laboratory, agencies of the federal government, subunits of these agencies and the U.S. senate. His findings state that the various lines of work such as legislature, agency, lab, programmes, etc. were furthered through a mixture of discussion, persuasion, perhaps threats or other coercion, but above all through negotiative processes. The negotiations occurred at and between various organizational levels linking the coordinating or complementing interests of several organizations or their subunits.

Thomas' (1984) research into maximum security prisons is designed along Strauss' statement that even the most repressive of social order is inconceivable without some form of negotiations. He utilizes the concept of the negotiated order to study a total organization such as maximum security prisons where staff and inmates negotiate their own interpretation of the social world, often creating an alternative that they may be just as formal although tacit. He acknowledges the fact that many other studies have "discovered" that

prison staff and inmates negotiate arrangements, obligations and relationships but these "conventional studies stress the informal relationship that exist". His argument is that such arrangements are more than informal in that they recreate "mesostructures" that co-exist and often compete with the authorized structure. This gives rise to a social order which is coloured by the form of negotiations that occur. Consequently, "many negotiation strategies have the ironic effect of further decoupling organizational rules from their intent. This dramatically alters the hegemonic power structure and generates as well a set of conditions requiring continual interaction for successful perpetuation of social order".

Altheide's (1988) recent study looks at the nexus between the social world of non-profit service organizations (NPO) and their environment, that is, how organizations adjust to changes in their funding environment, the relative impact of governmental retrenchment on non-profit organizations in Maricopa County, Arizona. Interpreting the data from the negotiated order perspective, he suggests that "agencies' adjustments were mediated by an awareness of the local and national contexts, the services they offered, the clients they served, and their general capacity to maximize their resource mobilization potential". The impact of reductions from the government was mediated through community, symbolic and organizational contexts which resulted in a new definition of legitimacy. The

successful agencies did not fight the battle head-on; they avoided confrontation by negotiating a different order with its own parameters for success and failure. In general, the NPOs studied survived the budget cuts but they shifted social worlds into an another symbolic structure:

"The agencies' adaptations show reflexively the impact of structure through interpretive process, social order through social control, and the construction of a negotiated order."

#### Negotiated Order Theory and Symbolic Interactionism

I shall make a brief reference to ideas developed in symbolic interactionism because the concept of organization adopted by the negotiated order and the political paradigms originated from the writings of the interactionists. Maines (op. cit.) states that the negotiated order theory was born from the "domain assumption" of symbolic interactionism and Day and Day (op. cit.) refers to it as its "roots". Strauss (1978) admits that interactionism as an intellectual tradition is more hospitable to considering negotiations as among the central processes in organizations. He specifically refers to the interests shown by the interactionists in social processes in the context of social change and the intermediate role assumed by people as active creatures in not only shaping their environment and future but also facing the constraints on their actions. Although the

earlier interactionists did not underline the importance of negotiations, Strauss states that this was changing largely because of "heightened search by some interactionists for joining social structural and social interactional considerations but with the anti-deterministic stance still intact". This search was to a large extent instigated by the inadequacy of the prevailing dominant perspective to provide explanations for interactions in organizations. The literature on formal organizations was dominated by Weber's rational-bureaucratic arguments and structural functionalism. Weber's model of a bureaucracy was characterized by a hierarchical chain of command in which status and authority were conferred into specific positions and rules and regulations dictated how work was to be done in the organization.

Symbolic interactionism as a social theory can be interpreted in terms of its fundamental assumptions on the nature of man and social reality which Day and Day (op. cit.) refer to as significant components of a theory (as discussed earlier) and one can clearly notice the similarities with the negotiated order theory. The interactionists treat individuals as choice-making and possessing greater freedom in their actions rather than passively reacting to external or internal stimuli and forces. People actively participate in the making of their environment and construct their activities with

some degree of freedom. Shibutani (1973) elaborates this characteristic of human nature:

"Human beings are neither creatures of impulse nor heedless victims of external stimulation; they are active organisms who guide and construct their line of action while continuously coming to terms with the demands of an ever-changing world as they interpret it. Of particular importance is the object each person forms of himself, for the capacity of man to interact with himself makes some measure of self-control possible."

Blumer (1969) describes a human being as "an organism that not only responds to others on the non-symbolic level but as one that makes indications to others and interprets their situation". Thus, human actions and behaviour in organizations have to be expressed in terms of meanings to the actors. Hewitt (1984) maintains that meaning is related to these questions: "what we are going to do, what others will do in return and what we will do in response...Meaning in this sense is triadic (Mead): when an individual acts she indicates to the other what she plans to do, what the other is expected to do in return, and what social object is being created by them". All of this process is related to the concept of "definition of situation", one of the key contributions of the interactionist thought and explained by Thomas (1923):

"Preliminary to any self-determined act of behaviour there is always a stage of examination and deliberation which we may call the definition of the situation. And actually not only concrete acts are dependent on the definition of the situation, but gradually a whole life-policy and the personality of

the individual himself follow from a series of such definition."

In reference to the ideas of Thomas, Ball (1972) explains that actions and interactions are the consequences of the way actors define their situations and actors do things on the basis of what they see is to be done, can be done, will be done by others. Ball underlines the choice-making role of the actor in formulating a definition of a situation:

"the sum of all recognised information, from the point of view of the actor, which is relevant to locating himself and others, so that he can engage in self-determined lines of action and interaction."

Hewitt (op. cit.) states that human action, including conduct, is based on definitions of situation and this is applicable in both familiar and unfamiliar situations:

"Where a situation is familiar and its configuration of meaning is known, people organize their own conduct and their expectations of others in relation to its definition. Where there is no definition of a situation to start with - where people find themselves acting without confident knowledge of the situation they are in - individuals first focus on establishing a definition.....We know what is permitted and what is not, and this knowledge is an important part of the definition we bring to a situation. Definition of the situation encompasses roles, objects and joint actions....knowing these things enables us to define the situation appropriately and to make more or less correct interpretation of others' acts."

Blumer (op. cit.) asserts that interactionism is able to explain divergent human behaviour such as harmony and disagreement or cooperation and conflict because it



focuses on the processes of interpretation and definitions of the actors. Since actors construct acts by a process of interpretation and definition of each other's actions, organization, to Blumer, essentially consists of the fitting together of individual lines of action to form joint actions:

"The participants may fit their acts to one another in orderly joint actions on the basis of compromise, out of duress, because they may use one another in achieving their respective ends, because it is the sensible thing to do, or out of sheer necessity."

The actors' definitions are important elements in negotiations because they are involved in a process of presentation of self and of altercasting and they are suggesting identities to be assumed and the roles to be played. They are involved in interactions but such interactions cannot proceed any further if neither of the two are willing to make changes to their definitions. Negotiations of compromises then become the only possible alternative according to McCall and Simmons (1966):

"The two parties will negotiate some sort of compromise, each acceding somewhat to the other's demands, though seldom in equal degree... this compromise definition of the role and character of each is not executed in a single step but is the eventual result of a complex process of negotiation or bargaining."

Interactionism holds a distinctive view of social reality, that is, the actions of people as they meet their life situations and their actions as reality itself. Social action is created by a collection of

individuals who fit in their actions together through the process of interpretation and exchange of definitions. Thus, there is no organization except in the actual actions and behaviour of the people and organization is what people think, do and say. The social reality of an organization can be explained only in terms of actions of the actors and the processes through which the organizational patterns have been generated and sustained. Blumer (op. cit.) emphasizes the study of actions to understand any form of social order or social reality:

"Without action, any structure of relations between people is meaningless. To be understood a society must be seen and grasped in terms of the action that comprises it.....The picture is composed in terms of action. A society is seen as people meeting the varieties of situations that are thrust on them by their conditions of life. These situations are met by working out joint actions in which participants have to align their acts to one another. Each participant does so by interpreting the acts of others and in turn, by making indications to others as to how they should act. By virtue of this process of interpretation and definition, joint actions are built up, they have careers."

Hall (1972) states that the attention given to action, living and ongoing activity is "to orient away from the standard sociological notions of society as a structure, as the mechanical or automatic exchange between positions, and to focus on the level of what people actually do". Joint action is the process by which actors are able to interact and fit together their activities and organizational decisions emerge from the

alignment of interpretations and actions of members of group who hold shared responsibility. All joint actions arise from a background of previous actions of participants because they "bring to that formation the world of objects, the set of meanings and the schemes of interpretation that they already possess" (Blumer, op. cit.). Even a new joint action in a new situation can only be understood by incorporating it with what went ahead before, i.e. its context in a historical sense. In the complex interdependent situation of most organizations, Weick (1969) argues that an individual cannot produce "closure" by his solitary act and therefore has to take account of other persons as well. This calls for mutually "reciprocal behaviour" after which a cycle of events can be established. A set of interlocking behaviour results in collective structure and joint actions become the main basis for social actions. Hall (op. cit.) describes joint actions as a "basic social fact" but one which is very difficult to understand because:

"the quality of social life is characterized by greater degrees of uncertainty and requires stronger conscious effort than normally described. Joint action is all of these because it is like a chemical compound rather than a mixture. It is more than the aggregate of its parts; it is a synthesis that results from inter-subjectivity, feedback, consensus, and co-ordination. It is a merging, an alignment of actions that develop in the course of assessing the situations, determining what has to be done, assigning tasks, and carrying them out. It is clearly a complicated process."

### Critique, Limitations and Future Development of the Negotiated Order Theory

Notable critiques to the negotiated order perspective are extended by Day and Day (1977), Benson (1977) and Benson and Day (1976) in response to the major research work of the proponents of the perspective which were published during the sixties and the early seventies. These critiques point out the limitations and weaknesses of the perspective and offer suggestions for possible development in future investigations.

Day and Day (op. cit.) accept the negotiated order perspective as an interactional model involving processual and emergent analysis in which informal aspects of organizations are emphasized as much as the formal and they credit it for challenging the more static structural-functional and rational bureaucratic explanation of complex organizations. They state that although the perspective qualifies as a revolutionary change-oriented approach, it is never completely developed. The perspective suffers from the same problems as identified in the work of other symbolic interactionists and they list three main weaknesses which need to be reckoned with:

a. The negotiated order studies, like other work in the symbolic interactionist school, have deteriorated to little more than a non-critically oriented descriptive account of participants' own account of certain

situations. Such an approach clearly ignores alternative and sometimes contradictory explanation of the same situations and fails to verify these interpretations by means of using additional sources of data such as records, documents, observation of others, etc.

b. The perspective studies only a limited sector of reality, that is, detailed descriptions of interactions among actors in an organizational setting but only a restricted view of the world outside and how it impinges upon what goes on inside it. It gives very little insight into how large structural features of society influence and perhaps predetermine the limits of negotiations. Consequently, one of the end results is the failure of the negotiated order theorists to critically examine the hard realities of power and politics and the influence they exert upon negotiative processes.

c. The perspective makes only a limited attempt to understand the broader historical forces at work in our society and most of the research represents "something akin to a snapshot of a group or organization at one fairly delimited point in time". There is also no examination of those activities which have been and continue to be non-negotiable historically and why this is indeed the case.

They conclude that the most serious limitation to the theory of negotiated order is its failure to place

specific negotiative processes within a contextual framework:

"This characteristic has served to restrict the theory's level of analysis primarily to micro and middle-range processes, and, as a consequence, it is quite possible that we may be getting a distorted picture of the actual nature and scope of some of these negotiations". (Day and Day, op. cit.)

Day and Day (1978) defend their original position in reply to comments by Maines (1978) on their critique and continue to stress the need of the perspective "to grapple with the issues of structure and process". They specifically state that more attention has to be directed to the central issues of power, politics, history and macro level structures.

Benson (op. cit.) accepts the negotiated order perspective as an improvement over the rational/functionalist approach to organizational analysis because it is a process-oriented perspective stressing the continuous emergence of organizational arrangements out of interactions of participants. Similar to the views expressed by Day and Day, Benson also finds this perspective undermining the fixed features of organizations and disregarding the structural limits but rather showing too much concern for micro-processes of interaction between participants. He states that the perspective has emphasized:

"the small scale adjustments possible within the limits imposed by the more encompassing structural arrangements, and has not dealt convincingly with the latter. The negotiated order theorists have a basic difficulty in grappling with social structure, which in their framework concerns the relations between distinct context wherein negotiation occurs.....The structure problem is to grasp the relations between situations - the way in which some negotiations set limit upon others." (Benson, op. cit.)

Benson (1978) in reply to comments by Maines (op. cit.) reiterates the limitations and neglected agendas of the negotiated order perspective and clarifies the concepts of "social structure" and "limits". His fundamental criticism of the theory is that it sets aside or indefinitely postpones the analysis of social structure and does not provide a way of dealing with limits other than as a context, that is, "it remains a boundary and out of focus". He argues that since negotiations take place within limits there is the need to examine the relation between sets of limits because social structure consists of relations between sets of situational-contextual limits.

Benson and Day (op. cit.) follow the same line of argument as the previous critiques and state that the perspective is singularly unable to deal with the larger set of constraints or limits within which negotiation is possible, nor with the processes leading to radical breaks with the presented negotiated order.

Strauss (1978) expounds a more fully developed line of argument of the negotiated order in Negotiations. He

tackles the main criticisms generated against the perspective and presents clarifications to the "typical objections" to the earlier work. Farberman (1979) describes the book as a "reflexive pause" because Strauss must have begun to identify the shortfalls in his work and noted that key elements internal to negotiation process have been overlooked and key elements outside the process neglected, for example, the actor's own theories of negotiation, the subprocesses of negotiation, the dimension of negotiation, etc. Thus Strauss tries to set a sense of where things are and where they are going. One of the main designs of Strauss is to counter the objection that negotiation is useful only to microsociology and that it has no relevance for macrosociology. Scanzoni (1979) in his review of Strauss' paradigm states that he has invested heavily in that particular aspect apparently anticipating the criticism that negotiation theory is divorced from structural consideration. The paradigm maintains that negotiations are to be considered in terms of the negotiation context which in turn must be dealt with in the more encompassing structural context. Maines (1979) appreciates this kind of linkage which is neatly developed in the case analyses in part two of Strauss' book because he considers that such linkage takes into account the possibility of changing structural context "bringing into the paradigm an historical perspective in which new negotiation contexts may appear and others disappear with historically changing structure".



Strauss is specially concerned with the criticism pertaining to the inability of the negotiated order perspective to come to grips with relevant social structure. He identifies five relevant impingements on negotiations from the critiques to the perspective: (a) the organizational setting with its intraorganizational properties, (b) the external setting "within" which the organization is located, (c) the large-scale setting, (d) historical as well as contemporary considerations, and (e) power, dominance, and political considerations. He defends the recommended paradigm as an analytical framework for taking all these issues into account and admits that the case studies in his book may not be the most comprehensive analysis possible but represent a "good, beginning effort".

Another frequent criticism of Strauss' paradigm is that he does not adequately define the concept of negotiation and that he uses the term inconsistently. Mather (1979) asserts that although Strauss' book rightfully commands a good deal of favourable attention, its theoretical paradigm is seriously weakened by the imprecision and ambiguity in definitions of key concepts. Even the concept of negotiation is not clearly explained and there is no clear distinction between negotiations and agreements arrived at without negotiations. Similarly there is no distinction between negotiation and its alternatives such as persuasion, education, manipulation, coercion, etc. Couch (1979) states that there is no

effort to specify how the processes referred to by Strauss' thirteen synonyms to negotiation differ from or are similar to negotiation:

"Nor does Strauss attempt a formal definition or an operational specification of either negotiation process or any of the other social processes that are often intertwined with negotiation processes. Instead the water is thoroughly stirred and left extremely opaque."

Farberman (op. cit.) also acknowledges the ambiguity in definition but he interprets the concept of negotiation in terms of a pragmatic image of man who makes "adjustment" to insure his survival and in the process creates, maintains and transfers the social order.

Maines and Charlton (1985), both steadfast proponents of the negotiated order theory, attempt to define the nature of negotiation because they admit that such ambiguity creates problems in determining the conceptual usefulness of the perspective and in conducting research on negotiated orders. For example, they state that "what the perspective is to scholars frequently stems from what they think negotiations are". They accentuate the fact that the negotiated order perspective is a "sociological" framework which attempts to improve understanding of "social orders" and "social organizations", and thus sociological study of negotiation must in some way be linked to "overall patterns of participation and the structured patterning of social orders". They disapprove the definition of

negotiation to be restricted to only situated negotiations and situated conduct and alternatively recommend a broader definition which includes a variety of interactional events and a link between negotiation processes and social orders. Such a definition of negotiation should include three dimensions which are capable of variation. The first dimension is the *degree of consensus* - that negotiations take place under varying degree of consensus, disagreement not necessarily being an essential element of negotiation. The second dimension is that negotiations involve the *use of strategies* and such strategies could be coercive, formal, manipulative, persuasive, etc. Lastly, all negotiations must include some *degree of exchange* without which there cannot be negotiation.

The key role of exchange in the creation of human association and social relations is developed in the literature on exchange theory which has relevance to this discussion on negotiations. Thibaut and Kelley (1959) and Homans (1961) have theoretically analyzed interpersonal relation based upon an exchange view of human interaction. An exchange is conceived as a social process of central significance in social life. When people come together or are put together, they often see the advantages to be gained from entering into exchange relations and the situation provides incentives for social interaction. The main argument for exchange is that people associate with one another with the intention

of receiving rewards and benefits. The main assumption underlying Thibaut and Kelley's analysis is that "every individual voluntarily enters and stays in any relationship as long as it is adequately satisfactory in terms of his rewards and costs". Homans conceptualises the process of social association as "an exchange of activity, tangible or intangible, and more or less rewarding or costly between at least two persons". Blau (1964), writing on the profit-seeking purposive behaviour of people, states that social exchanges are voluntary actions of individuals who are motivated by expected returns from others. Human behaviour and association is guided by the desire to obtain social rewards and social interaction is a process of exchange of rewards. Blau (op. cit.) states that two conditions must be met for behaviour to lead to social exchange:

"It must be oriented toward ends that can only be achieved through interaction with other persons and it must seek to adapt means to further the achievement of these ends."

In every exchange transaction participants need to come to an agreement because each of them hopes to gain maximum at the minimum cost. This creates a situation where there is the coexistence of conflicts and common interests and both parties must come to some form of an agreement. Their preferences are continually modified which involves a "process of maneuvering between partners and exploring alternative opportunities until some stable social relations have become crystallized"

Blau (op. cit.). In other words, negotiation constitutes a key element of the exchange process as parties continually interact with one another.

Exchange theory postulates that human interaction and behaviour is significantly guided by goals, interpretation and meanings and thus this theory bears close conceptual adherence to symbolic interactionism. Singlemann (1972) explored the convergences between the two theoretical perspectives in four major areas, that is, constructive mental process, conception of others, fitting acts to one another, and social dynamics in dialectic terms. He argues that exchange theory is a process of symbolic interactionism because:

"...Social action is subjectively meaningful and purposive; knowledge of the "objective" bargaining positions of interactants does not enable us to predict their behaviour satisfactorily unless we know how they interpret their situation and what value they assign to that which the others have to offer. The dynamics of social organizations rests in the paradox that "realities" have subjectively assigned as well as objectively given significance for human actors. "Objective" realities constrain behaviour, but the subjective interpretation of such realities direct actors to change these boundaries. There is a continuous dialectical process in which objective realities become "subjectified" by human actors."

Mangham (1986) places exchange theory at the heart of the symbolic interactionist thought because "interactionists consider that, for the most part, why people do what they do is the result of judgement: cognitive but not always conscious deliberation about

alternative courses of action". His study of interactions between a group of executives is based on the premise that interaction is a function of what each person gets out of the relationship: "no pay off, no relationship", that is, exchanges of mutual benefits. His research also included interviews carried out with the organizational actors to determine their perspective on their own interactions and interestingly they recognized and agreed that exchange and interactionist perspectives applied to much of the interaction carried on between them.

The main critique against the negotiated order perspective concerning the relationship between negotiations and social structural context seems to have been largely resolved after the presentation of the analytical paradigm by Strauss (1978). The theory has progressed from its original concern with interorganizational study of micro-interactions among actors. There are several significant research studies which have focused on the relationship between structural contexts and negotiations, for example Busch (1980), Hall and Spencer-Hall (1980), Gilmore (1979), Maurin (1980), O'Toole and O'Toole (1981), Strauss (1982). Busch sums up one of the central significant points by relating history and negotiated orders. Hall and Spencer-Hall analyse conditions that give rise to negotiation and conclude that the extent and nature of negotiation is subject to contextual constraints. Gilmore's analysis of the changing social worlds of art in seventeenth, eighteenth,

and nineteenth century France expresses the centrality of historical dialectic between structure and negotiation. Maurin raises various issues relating to the analysis of structural parameters. The research studies of O'Toole and O'Toole and Strauss extend the analysis of structural contexts to the field of interorganizational relations. Mather (op. cit.) reviews Strauss' book and evaluates the analytical paradigm as "very suggestive and promising" for future investigation into the properties of structural and negotiation contexts and to improve greatly one's analysis of specific negotiations. He commends the contribution of Strauss:

"What Strauss does contribute is an excellent formulation of the interplay between structural and negotiation contexts and between negotiation outcomes and contexts....Negotiation outcomes can contribute to changes in negotiation contexts which in turn may affect future negotiations, and perhaps even shape the structural context itself." (Mather, op. cit.)

An appreciation of the structural and negotiation contexts of Strauss' paradigm is extended by Fine (1984) who disapproves the "caricature" on the negotiated order theory by Kanter (1972) and Day and Day (1977). Fine states that these critiques have taken what is distinctive about the perspective and ignored the rest, and he defends the advocates of the theory by arguing that they "do not claim that structures do not exist or affect other relationships, nor do these theorists believe that formal rules make no difference". He upholds the effects of the structural factors on negotiations as

a priority area for future research and he examines the conceptual linkages between the negotiated order and organizational culture.

### **A Political View of Negotiation**

It may be apparent that the proponents of the negotiated order theory seem to have been largely concerned with tackling a single criticism. My argument is that the political and power dynamics of the negotiation process is not properly conceptualized in the negotiated order theory and I feel this remains one of the main limitations for its development. As stated earlier, Day and Day (op. cit.) comment that the perspective fails to examine the hard realities of power and politics and the influence it exerts upon negotiative process. They recommend that the perspective has to be much more politically grounded than in the past because the conceptualization of negotiation that is presented suggest "a cooperative and usually smooth process involving temporary disruptions in normal routines, new tacit understandings and so forth with little actual domination or oppression emanating from different bases of power with and without the organization". Although Strauss (1978) specifically state that anyone interested in negotiations ought to pay close attention to related issues of politics and power in future research and he also included these elements in the negotiation context



of the paradigm, a political analysis of the negotiation process is distinctly lacking in his presentation of the case studies. Scanzoni (op. cit.) notes that Strauss does not attempt systematic conceptualization of the "slippery subprocess" of negotiation such as the bargaining power or capability to achieve modifications from the other party and the complex dynamics of balance of power of the respective partners. Among the main proponents of the negotiated order theory, the writings of Hall and Spencer-Hall (op. cit.) make reference to the overwhelming importance of power in the relationship between social conditions and negotiation, that is, "equality, broader dispersion of power within an organization and efficaciousness are conducive to negotiation... Power constrains the occurrences as well as the results of negotiation". Although power is interpreted as a determining condition for negotiations, their main concern was to identify differences in the extent and circumstance of negotiation activities in the two school systems and the limits of structure, organization and interpersonal relationship. An analysis of the political process and exercise of power in negotiation is not included in their research.

The power and controls exercised by individuals in the negotiation process is covered in several research publications. Scheff (1968) argued that lawyers and psychiatrists have great deal of power in shaping the definition of the situation with their clients, more than

their clients do. Hosticka (1979) closely matched Scheff's position by showing how lawyer-client interactions involve negotiation over "what happened" and "what will happen" and how patterns of negotiations are linked to power and authority, that is, definitions are negotiated between the helper and the client, and the relative power over the negotiation process reflects power over the resulting definitions. Lawyers attempt to control what should be done and clients control when and how much would be done. Although both these studies provide a useful relationship between the negotiation process and power, there is a distinct lack of connection between negotiations and social orders. Maines and Charlton (op. cit.) state that these studies "flesh out" the details of the negotiation process among participants in a specified situation but offer only restricted analysis of the nature of the negotiated orders. They contend that the "larger negotiation and structural contexts are at best left out in the shadows of their analysis".

My position is that organizational change is political, as argued in the previous chapter and that change is negotiated in a situation characterized by ambiguity, uncertainty, newness and disagreements. The process of organizational change is political because of the interpretations and expectations of internal and external stakeholders and the corresponding differences in their interests. Such an exposition corresponds with

the "governmental politics model" of decision-making developed by Allison (1971). Stakeholders are players and actors who have independent bases and are conferred separate responsibilities and power, that is, a situation of dispersion of power which is conducive to negotiations as proposed by Hall and Spencer-Hall (op. cit.). Consequently, players have different views on what they see and judge to be important and they are obliged to fight for what they conceive as right. They are involved in a competitive game and the name of the game is politics. Allison's (op. cit.) characterization of the political model is best summed up in his own writing:

"Men share power. Men differ about what must be done. The differences matter. This milieu necessitates that government decisions and actions result from a political process. In this process, sometimes one group committed to a course of action triumphs over other groups fighting for other alternatives. Equally often, however, different groups pulling in different directions produce a result, or better a resultant - a mixture of conflicting preferences and unequal power of various individuals - distinct from what any person or group intended. In both cases, what moves the chess pieces is not simply the reasons that support a course of action, or the routines of organizations that enact an alternative, but the power and skill of proponents and opponents of the action in question."

The negotiation of the reorganization of the electricity industry is committed to be political because different stakeholders who share interlocked relationship are involved in trying to secure and promote their interests and definitions, conflicts arise where interests contradict and compete, and power is utilized for pursuance of self-interest. This kind of dynamics in

the negotiation process conforms with Pfeffer's (1981) definition of politics which involves "activities taken within an organization, to acquire, develop and use power and other resources to obtain one's preferred outcomes in a situation where there is uncertainty or dissension about choice". A political model of choice presumes that when preferences conflict, the power used by the key actors will determine the outcome of the decision process. Those individuals and groups within or outside the organization who can exert the greatest power will be able to secure maximum rewards from the interplay of organizational politics. In this sense organizational politics is the study of power in action, power in use. Bacharach and Lawler (1980) treat politics in organization as the "tactical use of power to retain or obtain control of real or symbolic resources". Pfeffer (op. cit.) draws attention to the close association between the two when he describes politics as the exercise of power to get something accomplished or expand power that is already possessed.

The political analysis of negotiations in this research will be mainly concerned with the nature and use of power employed by the actors to promote their interests in a conflict situation and the establishment of social order in organizational change. An analysis of power will provide the explanation for participation and effectiveness in negotiation situations. This kind of analysis has been generally missing in the work of

negotiated order theorists and this may be partly due to the fact that the concept of politics and power has been neglected in symbolic interactionism for a long time. Hall (1972) states that the concept of power has been noticeably absent in the writings of the interactionists and this absence "may be due to its typical definition in non-symbolic terms". Although few interactionists such as Rose (1962, 1967) and Scheff (1967) pointed out the neglect of power relations in symbolic interactionism, they have not included any discussion of power in their own research work. Hall (op. cit.) strongly advocates the introduction of power to understand the outcomes of negotiated interactions. He states that power influences the entire negotiation process and the analysis of power can explain "how a given bargain is made; why a particular group is essential; how a given definition of the situation is developed; why a particular norm emerges; and why some groups are self-conscious and assertive".

The stakeholders can be expected to become actively involved in the case of a radical change such as a reorganization where a new order has to be negotiated by a host of actors and new arrangements installed. The negotiation process and outcomes will depend on the relative power and influence of the interacting actors who need to be treated as purposive in their lines of action. The negotiated order perspective, in theory, assumes that everything is negotiable but it is not able

to explain adequately how a particular decision came about. It does not consider the power of the interacting individuals which is the indicative factor that explains why everybody does not have equal say in the negotiation process and some get what they want and some may be totally banned from participation. My interpretation of politics in negotiation will accentuate the identification of key individuals and their interests in the form of definitions of situation, conflicts, bargaining and compromises, and the power employed by the key actors to promote and protect their desired results.

The distinct organizational feature of a state-owned enterprise is conducive to political games because unlike in the average private sector enterprise, it usually has no clearly defined principal and agent relationship or a single responsible principal; the economic and financial goals are virtually overshadowed by a confusion of social objectives and usually conflicting and mutually inconsistent goals. There are usually several government bodies, interest groups and internal management who as stakeholders define the goals of the enterprise and exercise a complex set of influence and pressure in its operation (as discussed in chapter one). The macro-level structure is of special significance because it exercises influential control on the enterprise. Vernon (1981) mentions that the principal disappears in the case of a state-owned enterprise and becomes instead a babel of voices and unrelated pressures. Taking a similar line of

argument, Aharoni (1981) agrees that the principal cannot be identified because the owner is not a person, not even a single organization. The state acts through ministers, legislators, and civil servants who are themselves agents of the general public. Often these different agents have different perceptions of their jobs and state-owned enterprises frequently find themselves struggling with generalized, vague and conflicting interests. Thus, each ministry and each interest group uses power to influence the firm's behaviour and to reward or punish the firm as the firm responds to its needs.

I have stated that the negotiated order theory is chiefly concerned about explaining a slice, a snapshot of organizational life which makes up the social order at one limited point in time and hence it treats the definition of situation as a static and fixed feature of social interaction. It does not explain how a particular definition of situation came to be accepted and what order preceded it but generally suggests a "cooperative and usually smooth process" (Day and Day, op. cit.). I have argued that actors express their interests in the form of definitions of situations which in turn are negotiated with other individuals. In a situation of radical organizational change, stakeholders prescribe diverse definitions that form the basis of negotiation which eventually lead to decisions or nondecisions. A negotiated order should be treated as temporal and applicable for a particular moment in time because it

will hold together only as long as it meets the needs of the main actors and incorporates their definitions. For example, the replacement of key individuals can bring forth modifications in the position pursued by old guards because new incumbents import new meanings. Therefore, the definition of situation becomes an integral part of the political interaction where actors have to continually take into account others' positions, demands, power and often compromises will be made. The concept of definition of situation needs to be treated as dynamic and tentative.

Johnson (1982) underscores the necessity of understanding the dual nature of the definition of situation so as to allow more explicit attention to the process of negotiating order - a definition of situation guides and directs the course of interaction and simultaneously exists as the product of such interaction. He argues that such an interpretation offers a better understanding of particular outcomes of negotiated interactions because it recognizes people as continuously engaged in the process of defining situation and constructing their actions. Thus, the definition of situation is "changeable" and "mobilizable". Johnson bases his arguments largely on the writings of Perinbanayagam.

Perinbanayagam (1974) undertakes an interesting analysis of the ethnomethodological and dramaturgical



views of the definition of situation and argues that interactions with the other constitutes the very essence of definition of situation. He acknowledges the contribution made by Thomas' (1923) famous proposition that "if men define situations as real, they are real in their consequences" but he states that Thomas never explained how meanings are created. There is a suggestion in Thomas' writing that an individual defines situations alone and there is no conception of any interaction with others. Merton (1968) and Stebbins (1967) have attempted to unravel some of the problems of the concept of the definition of situation but Perinbanayagam finds their work very narrowly limited. Their main fault is that they look upon human conduct from two dimensions: one as responses to objective situations and another as responses to meanings. Such a distinction between objects and meaning is opposed because it is an "untenable and indefensible one in terms of human conduct" and it goes against the very position which Mead refuted so strongly.

Perinbanayagam suggests that the best explication of the concept of the definition of situation is possible when it is considered in association with Mead's concept of "social act". Mead (1932) defines "social act" as a social process:

"The social process relates the responses of one individual to the gestures of another, as the meanings of the latter, and is thus responsible for the rise of and existence of new objects in the social situation, objects depending upon or constituted by these meanings.....The response of one organization to the gesture of another in any given *social act* is the meaning of that gesture."

A meaning is established when individuals respond to one another in the social process which involves a kind of transaction. The interactions between individuals create the definition of situation and there is every possibility that they can differ widely in their meanings. Perinbanayagam states that people often have to make compromises in their interactions:

"Definitions of situations are serialled and mutually sensitive acts of negotiations and not psychologically conducted inferences arrived at alone and unaided."

Goffman (1967) uses the vocabulary of the theatre to explain the concept of the definition of situation and draws attention to the relationship between the definition of situation and interaction. He treats interaction as the management of impression between actors, where one proposes a certain definition of the situation and the other accepts this proffered definition and thereby creates a smooth interaction and a consensual definition of the situation. Even where differences exist, the key point is that interaction prevails and actors participate in announcement, articulation and dramatization.

It is perhaps appropriate at this stage to discuss my interpretation of the concept of power. Power is frequently referred to as a difficult concept and there is no clear and consistent definition although more and more organization theorists have become increasingly aware of its importance in explaining organizational processes. Ryan (1984) reviews the theories of power as covered in the literature of the social sciences and draws together the main ideas. She divides the writers on power into three categories - those who deal with the subject primarily in the context of society and the state; those who are mainly interested in the organizational setting; and lastly those who are mainly interested in power at the level of the individual. Although these three groups discuss the concept extensively (and particularly what it consists of), Ryan states that when it comes to the question "what do you mean by power?" the boundaries of the concepts are rather vague and consequently it is not easy to grasp all the aspects and levels of power simultaneously. Morgan (1986) also mentions that there is no clear and consistent definition of power although organization and management theorists have become increasingly aware of the need to recognize its importance in explaining organizational affairs. Some view power as a resource, that is, something one possesses and others view it as a social relation characterized by some kind of dependency, that is, as an influence over something.

Bacharach and Lawler (op. cit.) assert that the confusion or the lack of consensus about the meaning of power or its application to concrete social circumstances is due to the distinction between the epistemological assumptions underlying power constructs at the conceptual and empirical levels. There is a marked difference in orientation between those who theorize about power and those who conduct research, and as a result, there are irreconcilable debates over the nature of power. They suggest that the main reason for confusion in the literature is due to the fact that power is a "primitive" term rather than a "derived" term, that is, concepts borrowed from the theory-construction literature. Derived terms are less abstract and allow fairly precise definition. A primitive term is primarily heuristic and should sensitize the researchers to a series of issues rather than offer full clarification of the phenomenon to which it refers. They suggest that the "form" and "contents" of power relationships are concepts which sensitize and clarify the term "power".

Contrary to prevailing differences and difficulties in defining or conceptualising power, the amount of literature on the subject is impressively vast. My main interest is to identify and explain the power used by actors in the process of negotiation and hence I will not adhere to a singular definition which I fear can limit my analysis. Power will be used as a conceptual tool so that

the politics of the negotiations of the reorganization can be interpreted. Since my intention is to study power in use, I have been greatly influenced by the conceptual work of Lukes (1974) on power and the empirical application of it by a few other writers such as Gaventa (1980) and Brown (1986). Lukes developed a view of power consisting of three dimensions which takes into consideration the contributions of the traditional pluralists, the "two faces" model of power developed by Bachrach and Baratz (1962) and his own "radical" view of power. This framework incorporates a wide range of behaviour when the three different dimensions are employed and it collectively takes into account the various manifestations of the use of power. It offers a much more comprehensive interpretation of power relationships in organizations than in the pluralist view which has dominated much of the organizational research. Although the contribution of the pluralist view to the understanding of power relations is commendable, my contention is that it leaves out other forms of power which are significantly important in the politics of negotiation.

Power is an integral feature of all human interaction including the negotiation of order and change. Hall (1972), as stated earlier, recognizes this lacuna in the literature of the symbolic interactionists and he supports writers like Buckley (1967) who have attempted to merge together symbolic interactionism and

negotiated order with power. This close juxtapositioning of power and interaction has a very profound implication for the concept of power. Power is viewed here as a mode of relationship, that is placed in an interactive context, rather than as a structural characteristic that stands independent of or in opposition to the interacting individuals. Lukes (op. cit.) reviews the conceptualisation of power offered by Arendt and Parson and states that they are of "less value" because:

"they focus on the locution 'power to', ignoring 'power over'. Thus power indicates a 'capacity', a 'facility', and 'ability', not a relationship. Accordingly, the conflictual aspect of power - the fact that it is exercised over people - disappears altogether from view. And along with it there disappears the central interest of studying power relations in the first place..."

Bacharach and Lawler (op. cit.) warn that there is a tendency in the sociological literature on organizations "to anthropomorphize and reify elements of social structure" and this is particularly true in dealing with power. People often speak of things like the power of the organization, the power of the particular structure, etc. but such interpretations result in neglect of organizational politics. Politics must be understood through an analysis of the power relations among conscious individuals or groups of individuals. Mangham (1986) echoes a similar view of power in organization:

"Power is something that occurs between people; it is a relational concept. One individual - the source of control - announces his or her intent, demands support or compliance with it and manipulates or threatens to manipulate valued resources to secure

such support or compliance. The other individual - the target of control - interprets the source's intent, assesses the consequences of non-support or non-compliance and constructs what he takes to be appropriate action."

I shall review the conceptualisation of power as developed by Lukes in the next section.

### Pluralist View of Power

The traditional approach to the analysis of power, also referred to as the pluralist view, has largely grown from the thoughts of Max Weber (1947) and it greatly influenced American political scientists in the 1960's. Weber's definition of power:

"is the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests."

Weber treats the concept of power as highly comprehensive from the point of view of sociology, and hence all conceivable qualities of a person and combinations of circumstances may put him in a position to impose his will in a given situation. Weber's conceptualisation of power as a social relationship rather than a personal attribute or resource is significant as well.

The American political scientist Robert Dahl (1957) was influenced by the ideas of Weber and this is reflected in his definition of power:

"A has power over B to the extent that he can get B to do something that B would not otherwise do."

Although this exposition treats power as the capacity of the power holder, Dahl subsequently makes a distinction between the possession and exercise of power and it is the latter which is central to his view of power relations. Power is not power unless it is used; and power affects the behaviour of another person or party. Dahl introduces amendments to his original definition and describes power relations as involving:

"a successful attempt by A to get B to do something he would not otherwise do."

Dahl proposes a theoretical analysis of power relations for the study of overt actions. Power actions are to be studied by using probability functions and mathematical formulae and Dahl (1961) demonstrates their application in the measurement and ranking of power of U.S. senators in terms of their comparative influence over the senate on question of foreign affairs. His preference for studying concrete, observable behaviour to determine the use of power is clearly reflected in the method described in his book Who Governs? where he recommends:

"determine for each decision which participants had initiated alternatives that were finally adopted, has vetoed alternatives initiated by others, or had proposed alternatives that were turned down. These actions were then tabulated as individual "successes" or "defeats". The participants with the greatest proportion of success out of the total number of successes were then considered to be the most influential."



Polsby (1963) has closely adhered to Dahl in his definition of power and methodological approach. He states:

"one can conceive of power, influence, and control as serviceable synonyms - as the capacity of one actor to do something affecting another actor, which changes the probable pattern of specified future events. This can be envisaged most easily in a decision-making situation."

Polsby suggests that the best way to determine which individuals and groups have more power in social life is to identify who dominates in a decision-making situation because such a situation will raise conflicts and test the capacity of individuals to influence outcomes.

The majority of organization theorists seem to have built their concepts of power from the definitions offered by Dahl and other early pluralists. Their main concern with power has been the study of parties contesting a decision, each using available resources to influence the outcome. The focus is on explicit conflict in a decision-making situation and the use of power resources. Organizational researchers have shown much interest in power sources, that is, bases and sources of power in power relations, because such resources and their use are considered as important determinants in conflicts. The literature on bases of power depicts a vast and varied account of features of power relations and it also reflects numerous similarities and disputes among the writers.

Dahl (1957) made reference to an individual's power base in his pioneering work on the concept of power and he mentioned that it consisted of all the resources an individual could exploit in order to affect the behaviour of others, such as opportunities, acts, objects, etc. Dahl cited the potential base of the U.S. president's power over a senator as an example, that is, his patronage, his constitutional veto, the possibility of calling White House conferences, his presidential influence on the national electorate, his charisma and charm, etc. In a study of politics in New Haven, Dahl (1961) investigated the opportunities and resources available to a person for gaining influence and his exploitation of political potentials. He defines resources as anything that can be used to sway the specific choices or strategies of another individual and elaborates upon the kind of resources:

"A list of resources in the American political system might include an individual's own time; access to money, credit, and wealth; control over jobs; control over information; esteem or social standing; the possession of charisma, popularity, legitimacy, legality; and the rights pertaining to public office. The list might also include solidarity: the capacity of a member of one segment of society to evoke support from others who identify him as like themselves because of similarities in occupation, social standing, religion, ethnic origin, or racial stock. The list would include the right to vote, intelligence, education, and perhaps even one's energy level."

French and Raven (1959) develop a typological analysis of social power which has influenced many subsequent writers. They define social power in terms of

influence which is "a change in person's cognitions, attitude, or behaviour which has its origin in another person or group". Power is the potential influence that an agent can exert on the person. They distinguish five major bases of power: coercion, rewards, expertise, legitimacy and referent power. Coercion power implies the threat of decreasing another's outcome and ability to impose punishment. Reward power is the ability to reward the recipient. Expertise power stems from an attribution of superior knowledge. Legitimacy power is based on the rights of control and concomitant obligation to obey by the other. Referent power is based on identification and association with another person who is powerful, e.g. when a person uses another person or group as a "frame of reference". Information is added as the sixth basis of power by French and Raven in their subsequent writings (Raven and Kruglanski, 1970; Raven, 1974). Information power is based on access to or possession of important information concerning the organization which the other party does not know about.

Bacharach and Lawler (op. cit.) contend that the repertoire on bases of power developed by French and Raven do not follow a cogent theoretical framework and suffer from three inconsistencies. There is an overlap between a few of the categories, for example, legitimacy and expertise, information and expertise, referent power is used as a "catchall", and what is being controlled by

the party with power is not clear in all cases. They argue that this kind of ambiguity (in the writings of French and Raven) results from a confusion between "bases" of power and "sources" of power and they propose a distinction between the two:

"In dealing with the bases of power we are interested in what parties control that enables them to manipulate the behaviour of others; in referring to the sources of power we are speaking of how parties come to control the bases of power".

They suggest four primary bases of power based on the schemes developed by Etzioni (1961) and French and Raven, that is, coercive, remunerative, normative and knowledge. The first three bases of power are adopted from Etzioni: coercive power rests on the ability to apply the threat of physical sanctions; remunerative power is based on the control of material resources and rewards; and normative power is based on the control of symbolic rewards. The information power of French and Raven is accepted as the fourth base of power but classified as knowledge power which is "access to information, that is, knowledge also becomes a basis of power. When an actor in an organization controls unique information and when the information is needed to make a decision, the actor has power". Any power relationship in an organization can encompass all of these four bases and each relationship may well be characterized by one of them rather than another according to Bacharach and Lawler. They identify four "sources" of power in a social relation, that is, office or structured position, personal characteristics,

expertise, and opportunity. The structural position of a person can provide access to various bases of power such as information, or coercive resources, or capacity to manipulate symbols, etc. Personal characteristics can be a source of power such as charisma, verbal skills, or even physical attributes. Expertise is a source of power because it is a means by which one party comes to control specialized information. The opportunity source of power is embedded in the informal structure of the organization so that people who occupy critical positions have greater capability of influencing the productivity of an organization, as illustrated by Mechanic's (1962) analysis of the power of the secretarial staff.

The patterns and degrees of dependence are the parameters within which individuals affect each other. Dependence can be a base of power contingent upon what each party can control that enables it to influence or manipulate the other's behaviour. The dependence aspect of power is developed in the social exchange theory (Blau, 1964; Emerson, 1962, 1972; Homans, 1974; Thibaut and Kelley, 1959) and the exchange element in all social relationships has been briefly discussed earlier. Thibaut and Kelley state that a dependence relationship exists when an individual's actions and the outcomes are dependent not just on his own behaviour but also on what others do or how they respond to his behaviour. A dependence implies that the outcomes of an individual's actions are determined by the interrelationship between

his behaviour and the other's behaviour and a social exchange originates from such a relation. Any kind of conflict between two or more parties in a power relationship also implies that they are engaged in a dependence relationship.

The power-dependence theory of Emerson (1962, 1972) and Blau (1964) considers the power of an individual as a function of other person's dependence on him. Emerson (1962) treats power as a property of the social relationship which entails mutual dependence, that is, dependence of one party provides the basis of power to the other. A power dependence relationship means that:

"A *depends* upon B if he aspires to goals or gratifications whose achievements are facilitated by appropriate actions on B's part. By virtue of mutual dependency, it is more or less imperative to each party that he be able to control or influence the other's conduct. At the same time, these ties of mutual dependence imply that each party is in a position, to some degree, to grant or deny, facilitate or hinder, the other's gratification... In short, *power resides implicitly in the other's dependency.*"

Emerson enhances the concept of dependence and identifies two variables which jointly influence the dependence of one actor upon another (also discussed by Blau, op. cit.; and Gergen, 1969):

"The dependence of actor A upon actor B is (1) directly proportional to A's *motivational investment* in goals mediated by B, and (2) inversely proportional to the *availability* of those goals to A outside of the A - B relation."

The motivational investment of an actor is the degree of value attached to the goal or outcome and is a measure of the importance of the outcome in the relationship. The greater the value attached to the outcomes in such a relationship, the greater the power of the other. The availability of other alternative sources is the probability that an actor can secure similar goals from other relationship which reduces the other's control over him. Hence, power has to be examined in terms of other networks of relationship that influence the dual A - B relationship.

Blau (op. cit..) states that the most prevalent way of attaining power is to provide services which others cannot easily do without in an exchange relationship. If a person regularly renders services to others which cannot be readily obtained from elsewhere, they become dependent and obligated to him for these services, unless they can furnish other benefits to him that can produce an interdependence by making him equally dependent on them. Blau defines four conditions that can produce an imbalance of power in a power-dependence relationship, that is, four basic alternatives to power:

"Individuals who need a service another has to offer have the following alternatives. First, they can supply him with a service that he wants badly enough to induce him to offer his service in return.....Second, they may obtain the needed service elsewhere.....Third, they can coerce him to furnish the service, provided they are capable of doing so in which case they would establish domination over him....Fourth, they may learn to resign themselves to do without this service."

If people are not able or willing to choose any of these alternatives, they have to comply with the wishes of the supplier of the services. The continued supply of services inevitably generates power and "their subordination to his power is inescapable".

Bacharach and Lawler (op. cit.) extend their appreciation to the power-dependence theory because it conceives dependence as inherent in social life, treats dependence as a formal dimension of power, and makes power a central concern of a sociological analysis. In addition, the theory incorporates important distinctions that have been overlooked by other authors who have followed the standard Weberian definition of power, such as Bierstedt, 1950; Dahl, 1957; Etzioni, 1961; French and Raven, 1959; Tedeschi and Bonoma, 1972; and Wrong, 1968. First, the majority of these authors do not directly link power to dependence and social exchange. Second, the power-dependence theory makes an important distinction between an actor's stake in a relationship and the ability of each party to manipulate the other's outcomes. Most theories on power emphasize the coercive aspects and neglect the underlying stakes of the actors. Third, the power-dependence theory states that the use of power is almost always based not on the objective conditions of dependence but on judgements which actors make about these conditions, i.e. the cognitive aspects of power relationships.



Bacharach and Lawler (1976, 1979, 1980) conduct a series of experiments on the cognitive implications of the power-dependence theory and specifically study the different cognitive processes in conflict settings. The research findings affirm their assumptions that the level of dependence will provide a basis for the individual's perception of their own and others' power, the likelihood of the other using power, and the evaluation and selection of multiple tactical options. Their support to the theory is well expressed in their conclusion:

"Thus, we can say that power-dependence theory identifies the basic parameters that constrain a power relationship. These parameters are simultaneously a source of integration and conflict. The dimension of dependence determines whether parties stay in a given relationship, attempt to change it by tactical action, increase the amount of distance in the relationship, or simply abandon it."

The pluralist view of power starting from the contributions of Dahl and further subsequent developments by others as examined above has been labelled the "one-dimensional view" of power by Lukes (op. cit.). He provides a succinct summary of the conceptual and methodological approach of the pluralists:

"one-dimensional view of power involves a focus on behaviour in the making of decisions on issues over which there is an observable conflict of (subjective) interests, seen as express policy preferences, revealed by political participation."

The Two Faces of Power

Bachrach and Baratz (1962, 1963) maintain that a fresh approach to the study of power is necessary and develop the concept of "two faces of power". They are critical of the conceptualization of power of both sociologists and political scientists; and the sharp differences between the two schools is attributed to the fundamental differences underlying their assumptions and research methodologies. They generally support the pluralists' criticisms and disagreements with the assumptions of the elitists; viz. every human institution consists of an ordered system of power structure which is an image of the organization's stratification; the power structure is stable over time, and reputed power is equal to actual power. Although pluralists such as Dahl expose the main weakness of the elitist, Bachrach and Baratz continue to find faults with the former's definition of power and their methodology, that is, power defined as participation in decision-making and analyzed by examination of a series of concrete decisions. The two critical weaknesses with such an approach to power are: the pluralists do not take account of the fact that power can be exercised by confining the scope of the decision-making to relatively safe issues and they provide no objective criteria for distinguishing important and unimportant issues.

The pluralist concept of power is plainly evident in a situation where A participates in the making of a decision that affects B. There is also an another "face" of power which exists in the following situation according to Bachrach and Baratz:

"A devotes his energies to creating or reinforcing social and political values and institutional practices that limit the scope of the political process to public consideration of only those issues which are comparatively innocuous to A. To the extent that A succeeds in doing this, B is prevented, for all practical purposes, from bringing to the fore any issue that might in their resolution be seriously detrimental to A's set of preferences."

A has exercised power over B and this is the second face of power. The authors contend that of the two faces of power, the sociologists see neither and the pluralists see only the first one.

The concept of nondecision-making is the key concept in the second face of power. When some people can limit decision-making to relatively non-controversial matters by influencing community values, political procedure and rituals, or create barriers to the public airing of policy conflicts, or effectively prevent certain grievances from developing into full-fledged issues which call for decisions, a nondecision-making situation exists. The decision-making will be limited to issues that are considered safe and latent issues will be prevented from becoming a question for decision. All of this is done and achieved through a process of

"mobilization of bias", a concept adopted by Bachrach and Baratz in their analysis from Schattschneider (1960):

"All forms of political organization have a bias in favour of the exploitation of some kinds of conflict and the suppression of others because *organization is the mobilization of bias*. Some issues are organized into politics while others are organized out."

Lukes (op. cit.) refers to the "two faces of power" as the two-dimensional view of power and commends it as an improvement over the pluralist approach to power. He credits it for incorporating into the analysis of power relations the question of control of the political agenda and the ways in which potential issues are kept out of the political process. The analysis of power from the two-dimensional view will need to identify potential issues (which nondecision-making prevents from being actual) over which there is an observable conflict (either overt or covert) between different interests (of those engaged in nondecision-making and the interests of those they excluded).

### The Three-Dimensional View of Power

Lukes' three-dimensional view of power takes into consideration the inadequacies of definitions and contributions of the pluralist approach and their critics, namely Bachrach and Baratz. The pluralists tend to focus on behaviour in the making of decisions on

issues over which there is overt conflict of interests and Lukes states that such implication is not required by either Dahl's or Polsby's definitions of power because power exists where A can or does succeed in affecting what B does. However, their approach is in contradiction with their conceptual framework and methodology; and therefore "it represents an insight which this one-dimensional view of power is unable to exploit".

The two-dimensional view of power is a major improvement over the pluralist view because it reveals the less visible ways in which a political system can be biased in favour of certain groups and against others. Lukes still regards it as inadequate on three counts:

First, the two-dimensional view like the pluralists is too committed to behaviourism because it stresses the study of overt behaviour in decision-making and conflict situations. It tries to put together all cases of exclusion of potential issues to a paradigm of decision. It presents a misleading picture of the ways in which individuals and above all groups and institutions can succeed in excluding potential issues from politics. Decision-making and mobilization of bias operate differently because the latter "are neither consciously chosen nor the intended results of particular individual's choices" (Lukes). Bachrach and Baratz adopt an individualistic view of power like the pluralist but the power to control the agenda of politics cannot be

analyzed unless it is seen as a function of collective forces and social arrangements. The power exercised by collective actions and social groups cannot be simply conceptualised in terms of individual action or behaviour.

Second, the two-dimensional view associates power with actual, observable conflict. Power and conflict is expected to go hand-in-hand, that is, an exercise of power exists only where there is conflict. Such an assumption is not valid for two reasons according to Lukes: manipulation and authority are two types of power included in Bachrach and Baratz's own analysis but their use does not necessarily involve any kind of conflict; power can be exercised without conflict when a person can influence, shape or determine other's wants. Examples of such phenomena are given in Skinner's work and even in Dahl's book, Who Governs?

Third, the two-dimensional view holds that nondecision-making power only exists in situations where there are grievances that are denied entry into political process and there is always genuine consensus in the absence of grievance. Lukes insists that this is too narrow a definition of grievance because consensus can be manipulated. A definition of grievance should include an articulated demand or a directed complaint or a vague feeling of unease or even a sense of deprivation. Power can be exercised by shaping people's perceptions,

cognitions and preferences in such a way that they accept their roles and grievance is prevented from arising.

Lukes upholds that his three-dimensional view of power overcomes the limitations of the two-dimensional view and offers:

"the prospect of a serious sociological and not merely personalized explanation of how political systems prevent demands from becoming political issues or even from being made."

Power is exercised by keeping potential issues out of politics without causing or averting to actual conflict. Even when there is a potential for conflict, it may never be actualised and remain only a latent conflict. In most cases the people upon whom power is exercised may not express or even be conscious of their own interests. The less powerful parties accept myths promulgated by the more powerful parties and even support decisions that contradict their interests.

Lukes is conscious that the pluralists object to studying something which does not happen and is not observable. His argument is that it is possible to study the power relation of the three-dimensional nature by identifying what exactly is involved in an exercise of power:

"...any attribution of the exercise of power (including of course, those by Dahl and his colleagues) always implies a relevant counterfactual, to the effect that (but for A, or but for A together with any other sufficient

conditions) *B* would otherwise have done, let us say *b*."

The counterfactual is clearly visible or "ready made" in actual, observable conflict situations, for example, where *A* and *B* are in conflict with *A* wanting *a* and *B* wanting *b*, then if *A* prevails over *B*, then it is easy to assume that *B* would otherwise have done *b*, which is the counterfactual. In situations where there is no observable conflict between *A* and *B*, the relevant counterfactual needs to be asserted to locate the exercise of power:

"....we must provide other, indirect, grounds for asserting that if *A* had not acted (or failed to act) in a certain way then *B* would have thought and acted differently from the way he does actually think and act.....and we also need to specify the means or mechanisms by which *A* has prevented, or else acted (or abstained from acting) in a manner sufficient to prevent *B* from doing so."

Lukes does not include any empirical work of his own as examples of the three-dimensional view. In fact, this view of power remains relatively unexplored in organization and management literature. A few organizational theorists have investigated the use of myths (Cohen, 1975) and symbols (Pfeffer, 1981) to manage meanings (Pettigrew, 1977, 1979) and control awareness. Hardy's (1985) analysis of power looked into "unobtrusive" power which is used before overt confrontation occurs with the explicit aim of preventing it.



### Summary

The political analysis of organizational change in state-owned enterprises initiated in the previous chapter has been further developed here. I have pursued the argument that change and order are created by negotiations which consist of political bargaining processes among key actors and stakeholders, rather than change decisions being taken on the basis of rational goals, objectives and assumptions. The reorganization of the electricity industry was characterized by conditions of ambiguity, uncertainty, newness, conflicts and disagreements and hence joint actions among the principal actors were characterized by bargaining and negotiations. The importance of negotiation as a key social act is recognized and developed in the negotiated order theory and Strauss (1978) even poses the question, "are there any social orders that are not also negotiated orders?". I am in agreement with many of the proponents of the negotiated order theory that Strauss' analytical paradigm is a very useful framework for investigation into negotiations and negotiated orders. But I have argued that although the negotiated order theory provides a processual view of organization, it is still unable to explain individuals' participation and effectiveness in negotiations and provide reasonable answers to questions such as how a particular decision came about, why an actor or group is successful, or how and why people form a definition of a situation and how it changes. The

perspective does not present adequate explanation of the processes of negotiation and how negotiated outcomes are achieved because it has undermined the power dynamics in negotiation. People share power in organizations and thus power relationships may not be equal; and power influences what happens in organizations including negotiations. This implies that a "political" interpretation of negotiation has to be undertaken because power relationships influence processes and outcomes of negotiations. The power relationships in negotiations can be explored and analyzed along the "three dimensions of power" developed by Lukes which represents a comprehensive framework for identifying the various forms of power in use. The next chapter will study the various key organizational changes that were introduced as important aspects of the reorganization of the electricity industry. I shall argue that these changes were negotiated by the key actors and that they were "resultants" (Allison, op. cit.), that is, the outcome of "powerful" individuals pulling in different directions and distinct from what one group or individual intended.

## CHAPTER SIX

### NEGOTIATION OF ORGANIZATIONAL CHANGES: A POLITICAL INTERPRETATION

The organizational changes which were introduced as part of the reorganization of the electricity industry are analyzed in terms of actions and interactions among the various stakeholders. The change process can be explained in the actions of the actors, that is, the process of negotiation between the representatives of the stakeholders. What we seem to have is a model of interaction characterized by a complex network of competing groups and individuals acting to control, maintain or improve their situations, motivated by their self-interests, beliefs and judgements. These actors shared authority and responsibility for the implementation of various changes and some of them had the power to define the goals of the new organization. The final results of the reorganization may be interpreted as a change process in which all the external and internal stakeholders managed to secure their interests through compromises, agreements, deals, and generally other forms of negotiation, that is, the creation of a social order by negotiation. Except for the lending agencies, the other stakeholders did not see their interests protected or incorporated in the planned

change proposals of Coopers and Lybrand (C&L) and thus proceeded to redesign and implement changes more suited to their expectation and intent, their definition of the situation. In the course of events, organizational changes were created through a process of joint action which involved the fitting together, the merging, the alignment of separate lines of actions of the actors. The situation draws a very close parallel to Hall's (1972) interpretation of joint action which he described as "a complex process involving all the manifestation of bargaining and negotiating - strategy, tact, intelligence, manoeuvring, persuasion, inducement, constraint, threat, and exchange".

The key stakeholders seem to have largely secured their interests in the reorganization. The two lending agencies, ADB and the WB, were the initiators of the reorganization of the industry and called for the establishment of a single utility by merging all the fragmented bodies which eventually brought about the creation of the NEA. Sieber (ADB) stated the position of the bank on the achievement:

"From our point of view it is satisfactory because the reorganization did take place and one organization was created. To make it work we can never do, it is always the responsibility of your country and those people."

The Ministry of Water Resources (MWR) as the controlling body of the industry managed to retain its strong influence and control over the new autonomous authority

as they did prior to reorganization. The Ministry of Law and Justice (MOLJ) agreed on a NEA Act which matched their pattern of legislation designed for all other state-owned enterprises. The Public Services Commission (PSC) developed a criteria for staff adjustment which suited the interests of special individuals representing the authority but also included conditional compromises in its implementation so as to make its decisions look fair and just to all the other concerned staff. The internal actors of the industry were mainly concerned with securing positions in the new organization structure of the NEA and a maximum number of posts were created and majority of staff were fitted into higher levels. The creation of a project pool in the MWR was undertaken to accommodate the interests of an influential group of ED engineers who were reluctant to transfer their services to the authority. All these achievements in the reorganization were negotiated by the key actors in accordance to their meanings and definitions of the situation and these cases can provide the basis for understanding organizations as suggested by the negotiated order perspective.

I have argued that the negotiation of change can be political because it involves social relationships in which exchanges take place among the interacting individuals in a situation usually marked by uncertainty, ambiguity, competition and self-interests. Many others have advocated that politics is negotiation and "politics

is an art of compromise" is a frequently repeated aphorism. Pfeffer (1981) asserts that organizational politics is an analogue to negotiative activity. Hall (1987) continues to maintain that negotiations should be related to politics and states that "the analysis of negotiative activity is markedly processual and dynamic, yet grounded in the political realities of social life". My main contention is not only to explain that the several key organizational changes were negotiated among the stakeholders at both macro and micro-levels and such changes were negotiated orders as proposed in the negotiated order perspective but I shall also undertake an analysis of the power used in the change process and its outcomes. I am arguing that the use of power and politics was present in the macro interactions between institutions at the higher level and equally so in the micro interactions among members of the industry at a lower level. Power in this study is considered as a key property of the structural relationship in social settings as well as of the negotiation context, that is, as an important condition in negotiations and negotiated orders. My main concern will be to locate and explain the use of power in the process of negotiation of the organizational changes because power, I believe, can explain the results and the process by which such results were determined. I hope to justify using the "three dimensional view" of power because such an analysis can reveal that power was frequently exercised in other less obvious and less visible forms than the study of power in

overt conflict and decision-making situations which is the main focus of organizational studies. The discussion on power may appear to be repetitive in the several organizational changes but I wish to state at the outset that negotiation was an iterative process taking place at various levels and involved many different individuals; power relationships were a common feature in all negotiations.

In addition, a political analysis of negotiation will take into account the identification of key individuals representing the stakeholders, their interests and interpretations, conflicts and disagreements, etc. Few of these issues have been introduced in the earlier chapters where I identified the multiplicity of stakeholders and discussed the variety of definitions of situations they imported to the reorganization. The definition of situation is an especially important concept in the negotiated order perspective because it undertakes the study of human actions from the point of view of the actor. Actions emerge from the actor's meaning and choices are made on the basis of perception, interpretations and judgements; thus an examination of the actors' definitions of situation is essential to the study of behaviour in organizational change. I shall continue my study with this background and devote this chapter to the detailed analysis of four key changes: the new institutional set-up and creation of the NEA; the legislation of the NEA

including the composition of the board; organization structure; and staff adjustment including the creation of the project pool. These organizational changes resulted from the process of planned institutional rearrangement of the electricity industry and were considered the most significant by the people from within the industry.

#### **I. Institutional Rearrangement and the Creation of the NEA: Structural Context and Negotiations**

The decision to restructure the electricity industry was a direct result of long and arduous negotiations between the lending agencies and the government of Nepal, represented chiefly by the ED of the MWR. The lending agencies, the ADB and the WB, were the influential structural context of the industry as they provided loans and managed international financing for all key developmental projects (in other sectors of the economy as well) at concessionary rates which was very attractive to the capital-starved borrower. The concern for institutional change originated from this relationship in the early seventies when the country joined membership of the ADB. The fragmented electricity industry which constituted several bodies and operated as a civil service, state-owned enterprise and development projects was considered inappropriate for a utility industry by the ADB. The bank envisaged a single utility operating on commercial principles as in developed countries.



Negotiation seemed to be an integral process in the relationship between the banks and the borrower. Each and every application for a project loan to the ADB and the WB passed through a project cycle and this cycle was a standard context to which the industry responded and adjusted as it continued to receive finance. It formed the basis of an interorganizational relationship to which both the parties continually responded through processes of negotiations (Strauss, 1982; O'Toole and O'Toole, 1981). The project identification as the first step in the project cycle involved choosing a project for possible bank financing within the context of national and sectoral plans. The project preparation was done by carrying out a feasibility study of the project. Although project preparation was in principle the responsibility of the borrower, in practice the bank staff played a very active role and feasibility studies were mostly prepared by outside consultants funded by the banks under a technical assistance grant. The appraisal of the project was largely based on the feasibility report and the banks were chiefly concerned with the technical, economic, institutional and financial aspects of the project. In addition, the banks also raised other issues concerning the borrower such as organizational and management aspects before the loan for the project was considered. The main negotiations were conducted between the appraisal team and the representatives of the government and an appraisal report was prepared by the team from the bank which included a report on the project and a loan

document that spelled out all the terms and conditions agreed with the borrower. The appraisal report was specially important because it formed the basis for the final loan agreement between the bank and the borrower. The report was submitted to the bank's board for formal approval and became an integral part of the loan agreement. The new loans for future projects were negotiated on the basis of compliance to conditions stipulated in the previous loans and any differences between the two parties were issues for renegotiation.

From the very inception, the negotiation strategy followed by the ADB was to tie-up the reorganization issue with the appraisal of the development projects. The appraisal teams of the ADB negotiated project loans along with securing agreements on future steps to be initiated for execution of the reorganization. The lending agency and the industry were in an exchange relationship but the bank was in a controlling position because of the dependence of the industry. Dependence was the cause of exchange relationship as stated by Blau (1964) and Emerson (1962, 1972); Emerson states that power is a function of dependence. I have mentioned that the electricity industry was totally dependent for finance on the two banks and there were no alternative sources of finance that were equally attractive in terms of interest rates and other conditions. The ADB often exercised its advantage over the borrower to influence the bargaining in line with its definitions and

interests. The strategy adopted by the ADB was to relate project loans to progress and commitments on the institutional changes and Sieber admitted to advantages of such a tie up:

"We have to apply pressure at the time of the new project. The only time when we can and do anything is at the time of giving the new loan. Each time we give a new loan you must show some progress even if it is a very little. Because initially you have said you want to change, the bank has not forced you to change and you have accepted that you wish to change.....So once you have started, it is difficult to stop because that is also the whole idea."

I am stating that the reorganization of the electricity industry did not take place swiftly and smoothly with the ADB propounding the advantages and benefits of a single commercial utility and the government of Nepal readily conceding to such requests. Individuals representing the MWR and ED resisted any radical changes in spite of agreeing to the presence of numerous weaknesses in the prevailing set-up. The stakeholders held very different perceptions and opinions on the change programme which corresponded with the underlying assumption of the negotiated order perspective that individual members of the team can impose their preferences and judgements in a choice situation. An order will be negotiated and Strauss states that life in organizations, groups and other social structure cannot conceivably go on without tacit agreements and the more or less implicit negotiations that often lead up to them. In the same sense, I am arguing that the reorganization

of the power industry took place through a long process of negotiation between the ADB and the borrower. There were three key working arrangements negotiated between the two parties which affected an incremental progress towards the final creation of a single authority. These sequential agreements were: the institutional study of the industry by the expatriate management consultants; the choice of a one-body structure as opposed to a two-body structure; and the validation of the new authority. I should clarify the concept of incremental change as used above because I do not visualize the process of reorganization as the "logical incrementalism" of Quinn (1980). The progress towards any form of reorganization and the final validation of the NEA was forced to be slow and gradual because of the politics of conflict, disagreements, resistance, and differences. None of the essential characteristics of incrementalism, as put forth by Quinn, seemed to be the key processes applicable to this reorganization, such as testing out the small changes to be gradually developed as more information becomes available for decision or the organization probing the future and learning from partial commitments or cautious step by step activity of building awareness of the need for change.

i. Agreement on Institutional Studies by the Consultants

The bank mission of the ADB which came to appraise the second power project was responsible for initiating negotiations on a new structure for the electricity industry. Although the mission expressed their preference for institutional changes during numerous meetings with members of the government and the industry, they were aware of the resistance from many senior engineers of the ED and the MWR. There were several senior engineers who realized that the future bank finance was tied-up to the issue of institutional change but they were still reluctant to support the line taken by the mission mainly because of the personal risks and threats in a major change programme. Sieber summed up the resistance he faced at the initial stages:

"There was a large group of civil servants and people in the ED who did not want the change. There were people from the ED who wanted change but did not say so. It became quite clear that it is human nature for the reluctance, the fear of losing importance. If you are a higher officer in the ED dealing with all new projects you have some status which then you are afraid to lose. They did not fully understand and we tried to explain that the importance is not lost."

The crucial turning point was a covert deal reached between the mission team leader, Sieber and PP, who as the chief engineer of ED, was the most senior technical person in the industry and the key person interacting with the officials of the bank. PP was in favour of

creating a single body and his preference was based on his working experiences in a western power utility:

"In 1957 I wrote a report while I worked in Canada in the Hydroelectric Commission of Toronto. I was thinking of a similar type of organization as in Toronto and I recommended the creation of a single organization in Nepal. Such an organization would be a completely autonomous body under one management but operating within the framework of the government. It would operate with a demand and supply concept based on market principles."

Sieber recalled how he was encouraged by the chief engineer "to push ahead" with the organizational change at a private level and he admitted that such support did not "kill" their initiative for reorganization at the very early stage. Sieber was also requested not to disclose PP's support to the other engineers because of the resistance to reorganization from the majority of ED staff. The mission agreed the need to approach this issue cautiously and an understanding was reached with the chief engineer: an institutional study to be undertaken so as to have an overlook at the entire set-up of the industry and to determine the most appropriate approach for the operation and future expansion of the system as a whole. The study was to be financed by the bank as part of their technical assistance and not as loan, and would not incur any financial liabilities to the borrower. This was arranged as an additional incentive to the borrower as a free service. The mission also undertook the task of convincing the secretary of the ministry about the institutional study because his support was essential. This was not much of a difficult task because the service

was being freely supplied by the bank and the key technical person PP already supported the benefits of such a study. Esperto, another member of the ADB mission team, recalled the meeting with the secretary and credited him for his approval:

"You need people with a bigger vision like the secretary of the power ministry who supported us although the operational people at that time were not supportive..... I think we managed to convince the secretary during a cocktail party.....(convinced) to have an institutional study financed under a technical assistance grant."

It is interesting to note that there was little resistance to the institutional study at this stage because the senior engineers did not anticipate any direct threats or consequences from the study itself. The general feelings expressed by the ED staff at that time were "it was only a study" or "so many studies were conducted before without any effect". Furthermore, the undertaking of the institutional study to many in the industry was a way of postponing or even avoiding the call for changes by the ADB.

The recommendations on institutional changes by BEI not only matched the preferences of the bank but now two influential structural contexts were imposing identical definitions of the situation. They anticipated improvements in the performance of the industry, only after radical changes were introduced into the prevailing structure. The consultants' proposal was treated as a

neutral, expert view and it only strengthened the position of the bank in the negotiations because they could make direct references to particular weaknesses in the organization and provide justifications for doubting the capacity of the borrower. Moreover, PP was promoted to the post of the secretary of the MWR in 1979 and the bank found in him not only a covert supporter but now an influential one because he headed the entire power industry. Thus when the appraisal team came to negotiate the loan for the third power project in May 1979, they were able to work out a more specific agreement on the reorganization. PP was willing to take a more overt and favourable position on the reorganization because he could now refer to the BEI report and the demands made by the bank. A senior engineer with the ED recalled how PP "called all the heads, superintendent engineers, deputy general managers from the NEC and asked our views on the report but then decided on the reorganization by himself". The institutional study by BEI contributed to the first formal agreement on a new structure by the government and such a decision triggered off the reorganization process leading to inevitable progress in the subsequent loan negotiations.



ii. A One-Body Versus a Two-Bodies Structure: A Negotiated Decision

The bank mission which came to appraise the loan for the fourth power project in September 1981 found that the borrower had failed to comply to each and every loan covenant concerning the reorganization agreed upon earlier. For example, neither the "restructuring working party" had been formed nor consultants hired to implement the second phase of the institutional change. The inaction on the part of the borrower can be understood as their resistance to the change and creation of a single organization. The senior engineers from the ED felt threats to their desirable status quo. The reality of the change to a single state-owned enterprise and its possible effects at the individual level started to sink in and people started to interpret the changes in terms of personal gains and losses. Sympathetic support was given to their anxiety by the new chief engineer of the ED and a new secretary of the MWR, both of whom were more concerned about developing a favourable response to the change among their staff rather than considering the operational benefits of a single utility. The chief engineer of the ED was anxious about the grievances expressed by the senior engineers and other staff:

"As soon as there is the question of merging the two organizations, this has many implications. Every change has positive and negative aspects and there was the need to consider all this. We had to look into the matter of staff interests. There are certain reservations about going to a state-owned corporation and people prefer to remain as civil servants. Let us not get into what is the attraction

of the civil service but at that time there were strong reservations among middle and top level staff of the department.....They said that they wanted to remain in the government. What is the point if we introduce such a massive change but if people stay with the government. The government will not be able to provide jobs and on the other hand the new corporate body would suffer from insufficient manpower. This was one of the main reasons for delay. For a radically different way of doing things and for change to be smooth, there should be consensus among the people who work there."

A proposal for creating two separate bodies within the industry was finally put forth by the engineers of the ED who were trying to work out specific roles for themselves in the new structure. They proposed that the ED should still retain all the same functions and remain a government organization with the status of civil service. The deputy chief engineer of the ED who was the key architect of this proposal explained the advantages:

"I floated the idea of two bodies. The ED would be given the shape of the CEEB as in the UK pattern and the NEC would be like the area boards. The ED was doing more activities and working in more areas and therefore should take the CEEB role. This approach would also entail minimum change from the existing set-up.....But the banks do not always listen to our point of view and they stressed the recruitment of other consultants for further study."

The bank was sceptical about the two-bodies proposal because the fragmentation in the industry would still prevail and the discrepancies in loan execution and loan repayment would be extended and this was directly against the security of their investment. They suspected that the main reason for this proposal was the underlying interests of ED staff to safeguard their jobs and positions. Sieber summed up the thinking of the bank:

"In my perception the two instead of one organization was produced to provide job positions. The whole 'starter' was always finding positions for people to be retired and that is always very difficult. I think the two utility kind of proposal was merely because they could not agree on who has what."

A direct conflict of interests and opinions prevailed and this deadlock was resolved by agreeing on a second institutional study during negotiations for the fourth power project. The bank tied up the effectiveness of this loan to a final decision by the borrower on the reorganization. The new management consultants, C&L, designed a hybrid-model which cleverly incorporated the concept of two utilities as preferred by the ED and also recommended a single controlling board for both utilities to organize the planning, control and monitoring of the main strategic decisions, in line with the ADB's preference for one body. C&L stated that it would be "logical and sensible to establish a single authority" if no structure had existed in the industry and the hybrid model was considered appropriate, given the existing industry whose current structure and operations imposed some constraints.

The decision to create a single authority was taken in the tripartite meeting and the context of the meeting especially in terms of the historical position taken by the two banks on the creation of a single utility is important for understanding the outcome of the negotiations. Trevor, team leader of C&L, recalled that the government was under immense pressure for a decision

that had deeper implication upon the funding of subsequent major hydro-projects and both the banks preferred "one agency" because "at that stage it was still a very small industry by world scale and there was no particular agreement for not having one industry". The chief engineer of the ED who represented the borrower in negotiations agreed that a single authority was a compromise solution in which the preferences of the banks were taken into account:

"The banks did not say there should be one organization in the tripartite meeting but requested that all the previous functions done separately by the NEC and the ED be put in one organization."

The secretary of the power ministry argued that the choice of the government and the position of the banks contributed to a joint action:

"We have liberal access to outside advice in our developmental tasks with various multilateral and bilateral bodies and what happened was the culmination of decisions. I call it a joint effort."

### iii. The Negotiation of the Validation of the NEA

The commencement of the NEA was to be the last stage in the reorganization process because it would finally bring into reality the single utility to replace the fragmented industry. However, the formal decision by the government to establish the NEA did not imply that progress to the commencement was a smooth-sailing

process. A final decision on the validation by the cabinet of ministers was achieved only after negotiations took place between the lending agencies and the borrower and agreements were finally reached on what was to be done, when and how. The two distinct features of negotiations at this stage were the close collaboration between the two lending agencies and their firm control and pressure on fulfilment of covenants of the loan agreements.

The visit of the appraisal mission for the fifth power project was deliberately delayed by the ADB until the borrower committed a decision on the establishment of the NEA in March 1983. The ADB mission arrived in Nepal in April and they were confident that the reorganization was finally on the right track with the recent commitment and C&L working out the details for the new authority:

"Government has accepted the pressing need for a complete institutional reorganization within the electricity subsector and work on this is well under way. Attitudes will take longer to change but there are grounds to expect substantial improvements over the next decade." (ADB, 1983)

The mission team was particularly concerned about the past delays in not only the implementation of the institutional changes but also in the execution and completion of all the power projects from the first to the fourth. C&L was already working out a time-table for implementation of the authority which included a transition programme so as to complete the validation by

mid-January 1984. The key task remaining prior to validation was the approval of the new legislation and hence the two parties came to an agreement that the legislation should be passed through national parliament during the summer session of 1983 so as to make the validation possible by the planned date. An agreement was reached that the loan for the fifth power project would be made effective only following the approval of the legislation.

The execution of the fifth power project was delayed by over thirteen months because the NEA Act was introduced and passed in the summer session of parliament in 1984. In the meantime, the consultants handed in the final report in January 1984 and the responsibility for implementation was taken up by the borrower. The proposed vesting date for the NEA was put back first to January 1985 and subsequently the bank agreed with the borrower that the authority would commence operations by April 1985. The ADB was dissatisfied with the foot-dragging policy of the borrower and it was prepared to further tighten the screws during negotiations of the sixth power project.

The negotiations that took place with the WB for the financing of the largest hydro-power project in Nepal in 1984 has special relevance to the validation of the NEA. The WB team was not only familiar with the efforts of the ADB but fully extended their support by upholding the

benefits of a single authority (see chapter four) and they negotiated with the borrower to introduce a covenant on the validation of the NEA by April, 1985. The WB as the structural context of the industry at this particular time was very influential because of the borrower's stake in this relationship, that is, it involved a loan of U.S. \$107 million for the construction of a power generation station with an output capacity of 69 MW. This figure has to be compared with the total generation capacity of 133 MW of the entire power system at that time. The importance of this project for the future growth and development of the industry implied that the borrower required to be very careful about the implementation of the covenants, especially the ones on the validation of the authority:

"The following matters were raised during negotiations on which satisfactory agreement was reached:..... The new authority (NEA) commencing operations by April 30, 1985....."

"During negotiations, agreement was reached that the NEA will absorb the operations of the NEC and the ED as well as work of development boards.... after which future work of this nature would be carried out by the new authority. This consolidation will serve to improve coordination between the planning, construction and operation functions and thereby strengthen the sector's overall operations." (World Bank, 1984)

There was a feeling of desperation in the borrower to get on with the construction of this generation project because there was a huge shortage of power in the country and the industry had to resort to massive load shedding. The senior management of the industry was under immense

criticism and pressure from the politicians, public and other sectors of the economy. The deputy representative of the WB (Nepal) agreed that they were fully aware of the difficulties experienced by the borrower and their conditions on the loans for the Marsyangdi project was the turning point in the process of reorganization:

"As you will recall there was a bad experience with massive load shedding because the Kulekhani Power project was delayed and everybody was mindful that this kind of occurrence had to be avoided at all costs in the future. And this was one reason for the urgency to get on with the Marsyangdi project and not to delay the start.....You know if this (Marsyangdi project) had been just an interim exercise, the Kulekhani project had been almost completed, or new generation was not needed for many years to come, it might be argued that the validation decision would not have happened quite so quickly. I think there would have been resistance."

The urgency of the loan for the implementation of the Marsyangdi project was realized by the ADB as well and the loan application for the sixth power project was related to this generation project. This loan was to be used for financing the construction of a transmission line from the Marsyangdi project and one of the conditions for the effectiveness of the WB loan was that the finance for transmission lines needed to be secured from the ADB. Thus, the ADB was fully aware that their loan would act as the "key incentive for the borrower to expedite actions on the validation". During negotiations for the loan the ADB stated that the validation of the NEA would be a precondition for the signing of the loan agreement and subsequent loan effectiveness and they refused to sign a loan agreement for the first time in



their long association with the industry. The borrower was in a situation where both loans from the two banks were put at risk and finally agreed on the validation as stipulated in the conditions of the two loans.

### Power Relationships in Negotiation

Strauss (1982) states that no organization is an island unto itself and "few if any of those interorganizational arrangements, let alone 'agreements' or formal contracts, could be instituted and maintained without negotiation". He recommends an analytical perspective for illuminating interorganizational relationship that puts "negotiation into the centre of the picture - not necessarily as its central feature, but certainly as a major one"; interorganizational negotiations like any other negotiations can be best studied by taking into account the structural and negotiation contexts. The interrelationship between the lending agencies and the electricity industry seemingly fits into the concepts developed in the negotiated order, especially the three working agreements on reorganization. Although these working agreements may be interpreted as negotiated orders in the context of different definitions imposed by the interacting individuals, the prevalence of a certain interest or definition can be analyzed in terms of the power relationship. The following analysis will further explore

the negotiation process and explain the outcomes as results of power mechanism.

Since the mechanism of power of the one-dimensional view is relatively straightforward and widely understood and such use of power is manifested in negotiations between the banks and the borrower, I shall start an analysis of such a power relationship. The main issue for study here is the observable conflict in a decision-making situation and the use of power to prevail in the bargaining situation. This is the pluralist approach to power; power can be exercised by using any kind of political resources. The negotiations related to the decisions on one-body structure for the industry and the validation of the NEA can be understood in terms of such a power relationship. In both instances, the key elements common to the pluralist definition of power were present and can be examined by using the mechanism suggested by Polsby (1963), i.e. "who participates, who gains and loses and who prevails in decision-making".

The main issue for the lending agencies was the creation of a single state-owned enterprise in an industry that was alleged to be inefficient and inappropriate due to its fragmented structure. There were conflicting interests and differences between individuals who were representing the industry and the staff from the ADB who were urging the borrower to make a final selection of one body in the form of a commercial utility

as suggested by the consultants. Although the second institutional study by C&L was meant to provide a definite guide-line on the structure, serious doubts were raised about the hybrid model by the borrower. A director of the NEA who worked as the liaison officer for C&L suspected that they made too many compromises and concessions to the wishes of both the bank and the borrower in the organizational design:

"I think C&L came with the preconception of creating one organization because they doubted the need of two utilities in such a small country. When they started talking to people in the industry and were told of the enormous difficulties of moving HMG employees to a corporate body, they preferred a two utilities concept. But they were unable to change their preconception of one single body and they created a hybrid. I feel they were unable to give a firm decision in view of conflicting opinions. They used the two organizations concept and one controlling board to create the hybrid model. They were not convincing about why they joined it. Maybe they were trying to satisfy all the parties concerned but I feel they had no guts to stick to one clear line of thought. Once the majority of staff had expressed a clear consensus that two bodies were appropriate, they should have taken a bold stand."

The consultants sympathized with the views of the borrower but they did not clearly resolve the one-body versus two-bodies debate. They indicated the need for a single united industry and introduced the controlling board over the two utilities. Trevor explained his preference and intention in recommending the hybrid model:

"You see we took a very consultative approach: sort of went around and talked to everybody, an interview survey of fifty top people in the industry which covered a large number of prejudices of what people

thought about, a comprehensive selection of what management really did think. That's how we put recommendations in our report which, it has to be said, that my main conclusion, to be honest, was to get on, because a lot of other decisions were delayed while people debated whether to have two or one. It was far more desirable that they should get on and take the decision and live with it. And to be honest, not to worry too much about what particular system they came up with."

The ADB was determined that a single authority was the only way the sector could "fit" for their loans. The financial analyst of the ADB was convinced that the appropriateness and design of a single authority "could have been done on the back of an envelope" but since the government insisted on reports the consultants were brought in. The various ADB mission teams clearly indicated in the negotiations of the power project loans that one single authority was the right choice. Furthermore, the effectiveness of the loan for the fourth power project was delayed for more than a year as the bank exercised power to secure a decision on a single authority. The validity of this loan was extended four times by four different agreements between the ADB and the borrower and the issue of a single utility was the key point of negotiations. Thus when the tripartite meeting was held in Kathmandu to decide on the reorganization and an organizational structure, the final choice of one utility was a negotiated agreement but the power exercised by the banks in terms of control of capital and the dependence relationship of the industry seemed to have had a direct influence on the interactions that took place. The disagreement on the

structure was resolved in favour of the banks because of their ability to exercise power. Pfeffer and Salanick (1978) describe this as the external control of organizations arising from resource dependency. Such an exercise of power in negotiations was overt and obvious because loans were refused to put pressure on the borrower for a decision which was in accordance to the banks' preference.

The creation of a commercial utility and the choice of a single structure in the process of reorganization was frequently interpreted by individuals from within the industry in terms of power exercised by the two lending banks. Many of the senior managers in the industry conceived and expressed the power of the banks in terms of the dependency relationship arising from the supply of finance. A senior electrical engineer of the ED who joined a group of private consultants after the creation of the NEA pointed at the overwhelming influence of the banks in the power sector as well as their influence on the entire political economy of Nepal:

"Of course, both the lending agencies always said they preferred one executing agency in the power sector. The power sector is owned by the WB and the ADB because foreign loan is the main source of development for the industry, over eighty percent of the total finance..... There is no way the government can say no to the WB because the bank owns the country. Their involvement is political. The money they have given for the Structural Adjustment Programme, about US \$300 million, is basically to keep the present political system in power."

A senior engineer from the NEC who interacted with several mission teams of the banks related the single utility decision to the power and influence of the two lending banks:

"I talked to various mission teams and they felt one organization was needed. They argued that there was no possibility of improvement in the power sector with two organizations although both were under one ministry.....I believe this organization was achieved due to ninety-nine percent pressure from the banks. They used their financial base to apply the pressure and their authority has increased to such an extent that we have to surrender. It's due to our economy. We cannot do without new projects because electricity is now part of the basic needs.....We now have a situation similar to the traditional landowner system. The landowner can manipulate and monopolize the farmer and now it is the same between the banks and our bureaucracy. We had to admit to their pressures."

The single utility was definitely not a choice preferred by the borrower but enforced by the banks, with the loans for the development projects as the bargaining point, according to an adviser to the NEA who was previously a senior civil servant with the ED:

"No one wanted the reorganization and creation of one single organization. It was not preferred by the government. It has been imposed upon us by the banks and it has been kind of degrading to us. But we had to do it because they would stop the money. They threatened to stop the disbursement of the on-going projects and also future loan disbursements. Without money no projects and then no work."

This control over financial resources and the power from the dependence relationship was used again by the banks in negotiations of the validation of the NEA. The banks successfully followed the same strategy of tying up

conditions on effectiveness of loans with actions and achievements on the validation. Although there was no noticeable conflict concerning the commencement of the NEA, there were many senior engineers in the ED who claimed that they were not serious about the new authority even after the government's decision. The banks were worried about the potential delay from the borrower and wanted to commence the operations of the authority in accordance with the time-table and transition programme of C&L. This implementation programme was defended by the ADB and they pressed for actions on the consultants' proposals. The chief engineer explained the pressures he experienced:

"The donor pressure built up because we did not refute the consultant's reports and we accepted the reports but still did not execute them. The donors had the leverage and they used it to exploit the situation. We had to make quick decisions because of external pressures."

As stated earlier, the ADB inserted conditions for the commencement of the NEA in the two loans that were negotiated after the final decision of the government to create a single authority. Power from the dependence relationship was exercised during negotiations to introduce conditions that ensured actions along the lines desired by the banks and these conditions in turn were the new contexts which enabled the banks to control and apply pressure for the validation of the NEA. Strauss (1978) states that "outcome of negotiation itself can contribute to changes in negotiation contexts relevant to

future negotiations". This concept was illustrated in the case of the fifth and sixth power projects of the ADB when both loans were suspended and dialogue on future loans was stopped; such action was considered logical by the ADB because it adhered to the conditions negotiated earlier with the borrower. An exercise of power as provided for in the loan agreements allowed the bank to prevail in the bargaining. There is a continuous relationship between contexts and negotiations and Strauss (op. cit.) contends that although the structural context is larger, more encompassing than the negotiation context, the lines of impact can run either way. Changes in the former may have impact on the latter and vice versa. Denzin (1977) draws a close relationship between structural context and negotiations, that is, context as a consequence of previous negotiations.

The joint action of the two banks in the final stages can be seen as an illustration of a joint exercise of power in negotiations by the two external stakeholders who provided the bulk of the capital for development projects. The vulnerability of the borrower was accurately assessed by the banks as it was pressed with the urgency to move ahead with the new generation project so as to avoid the bad experiences with massive load shedding caused by delays in the construction of the last generation project. The key actors such as the secretary and chief engineer faced fear of recrimination in case this mistake was repeated again in the Marsyangdi



project. A joint exercise of power and collusion in the interests of the two banks seemed to make any further delay and resistance to the validation impossible as stated by the director of Planning of NEA:

"Though the idea (of reorganization) was first initiated by the ADB, later on the WB too fully supported it. When these two major agencies were behind, there was no way out of this."

The success of the joint action and its influence on the validation was reconfirmed by Sieber:

"We have worked together and the only time we had some impact was when we worked together.....And of course, a big generation project brought action from the borrower. We the banks should never play the decisive role but it may appear sometimes that we do."

The overt conflict situations described above illustrate the issues, grievances and power resources utilised to influence decisions. Power was also exercised in a subtle and less overt method as in the two-dimensional view of power in the interrelationship between the banks and the industry, specially in the agreements worked out to undertake the two institutional studies. I am arguing that the grievances of individuals from the ED such as resistance to the institutional change during the second power project and much later opposition to creation of a single authority were blocked from emerging into overt conflict and the agreements negotiated for the undertaking of the two institutional studies were cases of exercise of power. Bachrach and

Baratz (1962) state that power can be exercised by exclusion of certain participants and issues altogether from the decision-making process. The mobilization of bias by the powerholders can be sustained primarily through nondecisions whereby demands and challenges can be suffocated and suppressed even before they are voiced or determine whether certain issues reach the competitive stage. The resistance and opposition to the ADB's proposal of a single utility from senior engineers of the ED could have quickly turned into a fierce conflict and challenge if the appraisal mission had decided to confront such a radical change. The senior engineers represented the senior management of the ministry as well as the electricity industry and dominated in all key activities. Any direct confrontation with them could have started a conflict risking the whole business of reorganization at its (very) initial stages. On the other hand, the financial commitment of the bank was limited to just a single loan that was already disbursed and negotiations were in process for the second project. Although it could be considered that an exchange relationship was established, the dependence of the borrower was in a very preliminary stage and the bank was only beginning to establish its position and influence in the industry. Under these circumstances the mission team chose to negotiate an agreement on the first institutional study rather than include a condition for organizational restructuring in the loan agreement. The understanding reached between the chief engineer and the

bank team can be interpreted as a redefinition of the situation given the potential opposition to their interest. The study was as much a ploy in the form of mobilisation of bias by the powerholders who intentionally excluded a controversial issue that could generate open conflicts thereby stifling their interests and objectives. In other words, they carefully managed to suffocate a manifest challenge which supported the status quo of the existing arrangement. As main actors in the negotiation context, the chief engineer and members of the bank mission were in control of the agenda and they created barriers to actions by potential opposition by deciding on an institutional study. Parenti (1970) states that one of the most important aspects of power is "not to prevail in a struggle but to predetermine the agenda of struggle - to determine whether certain questions ever reach the competition stage". The agreement on the institutional study confirmed that a conflict did not take place at that stage.

The institutional study was a successful "diversion" from the anxieties expressed by the senior engineers who initially opposed a new institutional arrangement. It was only subsequent to BEI's presentation of weaknesses and shortcomings in the old structural arrangements and their recommendations for restructuring that many senior staff felt the study was "political" and a "trick" and a "trap" set up by the bank which then made actions and initiatives on the reorganization unavoidable. A director

of the NEA who worked as a liaison for BEI consultants on the study explained how he and many engineers in the ED thought and expected that the work of the consultants would be limited to "just another study":

"When we took on the technical assistance for the study we did not think about it to a considerable extent and I did not take the study seriously either. I don't think anybody thought about the outcome of it or expected the study to make such an impact. We had committed ourselves to the next phase of the study by agreeing to the technical assistance .....I think this was a trick by the bank. Now I am sure the bank normally operates this way. If they want to change certain things they start with a very mild dose."

A superintendent engineer of the ED who now works as an adviser to the NEA reflected on the rather cautious approach taken by the bank so that commitments were gradually piled up and enforced:

"If they (the ADB) had initially applied a condition of reorganization (in the beginning) which implied a merger of the organizations, I doubt if this study would have come through. But they played it very carefully and cleverly.....They gradually led us towards it with more and more commitments to the different loans."

Yet another of the senior staff of the ED who was retained as a financial adviser in the NEA stated that no one had envisaged such a radical change would follow when the bank called for an institutional study:

"When the bank stated that they would not extend the loan for the second and the third power projects unless an institutional study was undertaken, we took it quite lightly. We have always been improving our organizations by changing management, changes in structure, personnel rules, etc. Therefore this was no big deal. But we realized too late that the bank was not saying this ..... Moreover, the bank

agreed to grant the technical assistance for this study and our thinking here is that the grants are free and we don't care about the possible consequences.....Hence they gave us the technical assistance, a bit of loan, appointed consultants and by the third power project they had us by our necks."

The second institutional study which was a negotiated agreement between the borrower and the ADB has to be understood in a similar power relationship. I have stated that the senior engineers preferred the creation of two utilities in which the ED could be retained and the status quo maintained. Of course, this contradicted the definitions prescribed by the bank which led to differences during the third power project. The ensuing negotiations did not proceed to resolve this difference but another study was agreed upon by new consultants. This agreement was a method of confining the scope of decision-making to safe issues rather than getting involved in the controversy of a one versus two-bodies structure. Bachrach and Baratz (op. cit.) state that nondecisions can confine the scope of decision-making and are themselves decisions. A nondecision is a decision that results in suppression of a latent challenge to the interests of the powerholder. The borrower challenged the interest of the ADB which was not anticipated because they had earlier jointly agreed on one utility after the study by BEI. This challenge was suffocated not by conflict and use of power resources but by negotiating a decision on another institutional study which managed to side-track the main controversy, that is, only issues

which were comparatively innocuous to the bank were allowed for consideration by the borrower. There was no clear evidence to the majority of individuals from the industry that the bank was trying to impose their preference of a single utility. The controversy was left to be resolved by consultants who were considered experts on the subject of institutional arrangements and the borrower could not turn down such a logical proposition because they had neither worked out the details of the new structure nor could they claim to have adequate knowledge and expertise on organizational design. Furthermore, this kind of reliance on expatriate experts for problem solving was a common practice in the loan programmes of the ADB and the WB. The ADB usually passed on the responsibility for the transfer of technical knowledge and skills to consultants hired directly by the bank, in the case of technical assistance grants. In a study of the lending activities of the ADB, Wihtol (1988) states that the hiring of consultants by the ADB is contained within the "economic and political" interests of the donors and "conveniences" of the bank:

"For the donors, consultancy contracts represent a significant economic return on their contributions to the bank and are in some cases directly connected to further contracts.....On the other hand, from the point of view of smooth project implementation, bank staff often prefer to work with foreign consultants who are familiar with bank procedures rather than become involved in the complexities of using and fostering local consultants."

Although it might not be fair to suggest that the consultants and the ADB were in collusion in recommending a single utility, they seemed to share a mutual understanding for a commercial utility operated in profitability principles. The bank's perception on a single commercial utility was a clearly stated objective. BEI as an international expert agency on the electricity industry and with a previous record of having worked in Nepal earlier recommended a similar approach for the future development of the industry. Any new consultant recruited for the second institutional study would have to take into account all these factors and one could speculate that the chances of them recommending something very different was minimal. The odds were all in favour of the bank and they were confident that the new study would only enhance their position on the reorganization. Pfeffer (1978) states that strategies for achieving reorganization are more likely to be successful if endowed with the aura of legitimacy provided by consultants:

"One of the most effective and most frequently used ways of achieving legitimacy for the reorganization effort is through the use of the outside consultant. The role of the consultant as the "hit man" is widely known."

## **II. Legislation of the NEA Including the Composition of the Board: the MWR as a Stakeholder and Negotiations**

A draft legislation was prepared by C&L under the terms and conditions of their contract and included in their interim and final reports. Although this draft was accepted by the main individuals representing the ED in their interactions with the consultants and it was sent to the Ministry of Law and Justice (MOLJ) for translation into Nepalese script, the contents of this draft was substantially changed when the same individuals decided to prepare the final legislation for implementation. They had very serious differences and doubts about operating the industry as a pure commercial utility with unqualified profit objectives and they disapproved the limitations imposed on the influence and control of the parent ministry over the industry. They argued that the provisions of the consultant's draft required radical departure from the "standard" legislation followed by almost sixty other state-owned enterprises. The main differences centred around three recommendations included in the consultant's draft:

- The NEA shall provide electricity to those areas to which it is economic to do so and to those consumers willing to bear the cost; and provided that the government may direct the NEA to arrange supplies to other areas or to other consumers on provision that the government provides the necessary resources. The NEA shall follow commercial policies and principles.



- The role and influence of the government and the MWR was specifically spelled out and was limited to the following areas: approval of tariffs; determination of authorised capital and its issue; contacts with other government offices through the MWR as the parent ministry; and power to issue directives to operate any services or stop operation but the commercial implications of such directives for the NEA's performance to be made public, i.e. published in the Nepal gazette and the authority's annual report.

- The formation of the composition of the board was to be guided by these conditions: the board to consist of the posts of chairman and vice-chairman; inclusion of not more than five and not less than three of the full-time NEA staff into the board; no minister to be appointed to the board in any capacity; no civil servant to be appointed as chairman or vice-chairman; not more than two members of the board at any one time to be civil servants.

All the provisions included by the consultants provided for the creation of an autonomous, commercial utility as agreed in the tripartite meeting but there were fundamental differences in the perceptions of the key individuals in the government when it came to the actual preparation of the legislation. They differed on all the three issues listed above and worked together towards a redefinition of the provisions of the

legislation to match their expectations and interests. A senior engineer from the ED who was assigned the task of preparing a new draft explained why the consultant's draft was not apposite although it contained the basic necessary provisions for the creation of a commercial utility:

"The consultants have looked at the prerequisites required for a utility and prepared the legislation on this basis. It was good that they gave much importance for the viability of this institution. And since the legislation cannot be easily changed once it has been passed as an Act, they have included many things in the draft. Maybe in their countries, they include everything in the legislation itself but everything does not have to be explained in our Act. It has to fit in our system. Our legislation spells out the policy and it is for the board of directors to interpret it, it is just a framework, a circle within which to work. Our philosophy is different. The legislation has to fit into the system that is working and we started developing a new legislation."

The new legislation worked out by a few senior engineers from the ED and the MWR was designed along traditional lines which ensured the continuing influence of the government in general and the parent ministry in particular. The intervention by the government was justified as absolutely essential because they argued that the industry could not be operated purely as a commercial utility given its importance to the economic development of the country and furthermore, the involvement of the government in financing the development of the industry. I shall refer to the meanings upheld by the key actors who were involved in working out an agreement on the legislation.

The minister of the MWR rejected the idea of total autonomy to the authority because he considered the electricity industry as an integral part of national water resources. Since his ministry was responsible for the management of water resources in Nepal and because hydro-electricity was such a big sector within the water resources, the minister was adamant that the MWR could not be viable without influence and control over the electricity industry. The secretary of the MWR was concerned about the national importance of the industry and the capital supplied by the government which in turn justified governmental interference and participation:

"Electricity is for the development of the country and not lighting alone. It should contribute to agriculture, industry, drinking water, etc. It cannot be run as a pure commercial utility but since the banks have stipulated a minimum rate of return, there is the need to make a profit as well. Thus a mixture of social and commercial objectives should be followed. The government has the prerogative for major policy decisions and the right to give directives because the loans and grants are given to the government. The government carries the responsibility for such loan and takes the guarantee as well. Therefore the government will always have say in this sector."

The chief engineer of the ED, in line with the secretary, was attentive to the sensitive nature of the industry and its relationship with other development sectors:

"Water resources are the property of the government and any investment in the exploitation of this resource cannot be done without the approval of the government. There are other delicate aspects of water resources, such as irrigation, flood control, etc. which cannot be overlooked for the sole objective of electricity generation by the authority....What I am saying is that this authority cannot operate as a factory selling a product. Since its actions are interrelated to other sectors, the government should have control and this should be defined in the legislation. In this context, the authority cannot be totally autonomous. Moreover, since this will be a huge organization in the future and generate revenue, the government should not make it totally autonomous. On the other hand the government should leave the day-to-day business to the authority since it is a commercial organization."

Such contradictory and conflicting intents and definitions imposed on the authority by the key actors of the ministry were clearly reflected in the final legislation. For example, the Act required the authority to supply electricity to all and to operate on commercial principles at the same time. The Act clearly spelled out the government's powers over the subsector, including requirements for the NEA to submit regular reports and obtain government's approval for foreign loans, exports of power and changes in electricity tariffs. The NEA was stated to be autonomous but the Act did not spell out clearly those areas where the NEA could take decisions without the need to consult the government. The "Nepal: The Power Subsector Review" (1987) of the WB criticized the NEA for not having clear corporate goals and the report laid the blame on the legislation:

"The NEA's lack of coherent corporate goals also stems from weaknesses in the NEA Act. This is because the NEA is required to supply electricity to all, regardless of ability to pay while, at the same time, to operate on commercial principles. To clarify the NEA's corporate goals and thereby make it a more efficient power utility, it is recommended that HMG/Nepal undertake a review of the NEA Act with respect to emphasizing unambiguously the NEA's commercial character and the concomitant requirements that consumers should bear the costs of supply, except in cases of supplies for social purposes made at specific government request, for which HMG/Nepal would compensate the NEA."

In view of the dominant perception upheld by the key actors concerning the future responsibility of the government over the authority, it is understandable that they proceeded to change the entire composition of the board. The best guarantee of government control over the authority and its functioning was through a powerful board consisting of representatives of the various government agencies. Thus changes to the consultants' proposals were introduced which did not suit the meanings and interests of the interacting actors. They jointly defined the need for the parent ministry and other governmental agencies to contribute to the operation of the authority by their representation on the board. The necessity of governmental representation was expressed at the highest level by the minister of the MWR:

"Look at the disadvantages if you did not have the representation of the government secretaries on the board. The representation of a number of secretaries on the board was deliberate because, for instance, the representatives of finance and planning were essential if that board was to be effective. Otherwise all the major decisions that the board made would not carry through. You see, since this authority is making very large scale decisions, these decisions require the assent of many government authorities and particularly those of finance and planning. Therefore, their presence makes these decisions automatically viable. It is not only for coordination but it is critical to the functioning of the authority."

The secretary of the MWR acknowledged that the presence of government officials on the board could contribute to the commercial objectives of the authority:

"I do not believe that the commercial and public utility objectives cannot be met because the government members have their own interpretation of protecting the interests and objectives of the NEA...It is not necessary that the government's majority representation on the board cannot be commercial in objectives and action."

The minister proposed that he should be the chairman and the other staff in the bureaucracy supported him. One of the board members stated the reasons for favouring the minister as the chairman:

"The power sector investment is probably the biggest single sector in the seventh plan. Why should the government agree to drop responsibility for such investment? The involvement of the minister in the decision-making will make him accountable and responsible to the parliament accordingly. The minister as a politician is the representative of the people and he represents the aspiration of the public."

The chief engineer of the ED and other senior engineers working with him agreed with the practical advantages of having the minister as the chairman because there were

several government secretaries on the board and the chairman would have to be someone senior to them. It would not be practical to have one of the secretaries appointed as the chairman because this would be resisted by other secretaries as they were all of the same status. Similarly, the secretaries rejected candidates from the private sector in the position of chairman because they were "very conscious about their status" as senior civil servants.

The position of managing director was created to replace the vice-chairman who was to be the chief executive. The position of a full-time vice-chairman was formally rejected on the grounds that it was a concept that did not conform with the customary system in state-owned enterprises in Nepal and the NEA needed to fit into "the umbrella of the government". A more "political" explanation was presented by a senior superintendent engineer of the ED who stated that the position of vice-chairman was abandoned due to conflict and contest among his colleagues:

"A few senior engineers who qualified for the post of vice-chairman supported this proposal but more candidates who qualified for the posts of directors-in-chief resisted someone being appointed at the vice-chairman level which would be higher than them. Eventually the post of vice-chairman was lowered to managing director. Personal interest and group interest was always there but people always put forward intellectual arguments and reasoned their interests."

The post of managing director was in line with other state-owned enterprises and placed it under the supervision of the secretary of the MWR. A vice-chairman who was to be appointed by the prime minister would have been "too powerful" in relation to the secretary and other board members. In addition, the lowering of the position qualified the chief engineer of the ED to be a candidate for the managing director's post as he was the fore-runner for the job since the creation of the NEA, as well as the legislation being planned and prepared under his supervision. Many engineers from within the ED/MWR explained the position of managing director as an outcome of a covert understanding between the secretary of the MWR and the chief engineer of the ED. A joint secretary presently with the MWR explained this arrangement:

"As for the position of the managing director, the secretary of the MWR wanted the authority to be under his control. Therefore, the post of MD was made lower than the status of other board members. So as far as control and supervision of the authority is concerned we are back to the situation of the NEC where the general manager had to report to the secretary. The whole purpose and philosophy of creating a powerful autonomous utility has been defeated. And we are talking of a power sector which is going to be the most heavily invested sector."

The proposal for including the internal directors-in-chief of the authority on the board was rejected on the grounds that such representation by senior managers was a totally "non-established" practice in the context of state-owned enterprises in Nepal. Moreover, there was a threat to the majority representation of the civil



servants on the board in the event of inclusion of senior managers and this was freely expressed by individuals who participated in working out the board composition. One of them explained the reason for avoiding inclusion:

"If the internal staff were included the majority would have been from the NEA. The HMG would have lost the privilege of majority. We could not do this under our conditions. If this organization had been floated by the public with hundred percent capital then organizational representation would have been practical. But here the HMG is the sole shareholder and would definitely like to have the majority of the say; not because it is the HMG but because it is the biggest shareholder. If the majority voice was someone else it would not be possible to impose HMG rules and regulations."

If autonomy to the NEA was one of the main considerations of the lending agencies in the reorganization and in turn similar provisions were included in the legislation by the consultants, such goals directly conflicted with the interpretations borne by actors who were responsible for the finalization and implementation of the NEA Act. The description presented above indicates that these actors successfully worked out a new legislation, a negotiated order, in which they incorporated the meanings shared by them concerning the relationship between the ministry and the industry and the future role of the authority. The history of this relationship reveals that the power industry was always dominated by the MWR as the parent ministry exercising its influence through its department, the ED. The domineering role was taken by the ED in the construction of development works, planning and forecasting, tariff,

external financing and loans, etc. and additionally different kinds of controls were exercised in the operations of the NEC. For example, the secretary of the MWR as Chairman of the NEC board and at least two senior engineers of the ED as members of the board, a senior engineer of the ED appointed as the general manager of the NEC, all relationship with other government ministries communicated through the ED, and many interferences and control in the daily operation of the NEC. With reference to this situation, it may be recalled that BEI stated that the civil service never truly relinquished its hold over the electricity supply industry although a trading enterprise such as the NEC could not be run efficiently within the constraints and control imposed by the civil service. There was no concept of corporate autonomy because of the excessive external control. The historical context of ministerial control over the NEC was illustrated by an ex-secretary of the MWR, Rimal, who personally faced strong resistance from the senior engineers of the ED in his effort to give more autonomy and improve the management of the NEC in the late sixties. He supported the idea of bringing on BEI consultant into the NEC to install management procedures and systems but the senior engineers of the ED objected to this proposal. Rimal recalled how the engineers came to him and claimed that they were competent and there was no need for foreign experts. Due to the ensuing differences between himself and the chief engineer on the recruitment of the consultants, the

matter was referred to the minister of the MWR. The minister favoured the ED because he was the school mate of the chief engineer. The main reason for the resistance according to Rimal was that the "ED wanted to keep the whole industry within their sphere of control and that no outsiders should interfere".

A long-established pattern and tradition of control relationship shows how inextricably structural contexts and negotiations are linked. Salient structural properties have a bearing on negotiations (Strauss, 1978). In the case of the new legislation for the authority, a historically produced and embedded context dominated the process of negotiation and created a structure that matched the old context. The dominant parties from the context restricted the negotiation process (Busch, 1982) among themselves and implemented their definitions.

A tradition of intervention and control by the MWR/ED was an accepted and "natural" relationship, that is, an institutional practice, between the ministry and the power industry and similar control by the parent ministry of other state-owned enterprises was the culture of public sector management in Nepal. This kind of control and influence by the parent ministry was perceived as legitimate and not challenged because all government agencies accepted the order of things that had existed for so long and predominated through the public

sector. Gaventa (1980) refers to such acceptance as "internalized understanding" by the membership of the appropriate relationship. The individuals who represented the MWR drafted the final legislation in which adequate provisions were included to maintain the same control relationship, that is, a continuity of traditional definitions. The three-dimensional view of power of Lukes (1974) states that certain individuals and groups become equipped to exert their influence over the organization by defining situations, and shaping others' perception and not necessarily by influencing or controlling the decision-making agenda. Power is exercised by making people accept their role in the existing order of things because they see it as natural and unchangeable or can see no alternative to it. Power can be located behind the social construction of meaning because the actors who are instrumental in defining situations and establishing rational of what happens are in fact engaged in the power process as they go about interacting and deciding what is happening and why and what should be done. This interpretation of a power relationship can be applied to the interactions between the key players who as "defenders of the status quo" (Lukes, op. cit.) wanted no alternatives to the traditional relationship between the ministry and the state-owned enterprises and they faced no serious challenges from within the industry. The key actors such as the minister, the secretary and the chief engineer upheld the same definition concerning the MWR-NEA relationship and they defended the intervention and

interference of the government as absolutely essential - this was how the power industry operated for the past two decades and the same was to apply in the future. One should be reminded that their individual interests were protected in the continuity of the old arrangement and the legislation justified and legitimized their position.

The responsibility for finalization of the legislation before it passed through the cabinet and the parliament was jointly shared by the MWR and the MOLJ. The draft legislation prepared by the MWR as the parent ministry was endorsed by the joint secretary of the MOLJ, Sakya, who was in charge of legislation for all state-owned enterprises. He had earlier translated the draft legislation prepared by C&L and he appreciated the conditions put forward by them to maintain the autonomy of the authority:

"The consultant did not want the clause concerning the government's authority to issue instructions to the NEA and for that reason they included that such instructions should be published in the national gazette and the costs compensated to the NEA for such directives.....The main focus of their draft was the treatment of the NEA as an autonomous entity and to enable it to operate independently within a certain policy framework defined by the government."

Sakya recalled how the consultants' draft was substantially changed when the officials from the ED/MWR came to discuss with him the new draft prepared by them. The legislation was returned to its traditional form because the MWR "could not digest the new ideas put forth

by the consultants" and the MOLJ agreed that, as a policy, the parent ministry should define their specific needs in the sector. The MOLJ's main concern was the effect of the new legislation on the civic rights and liberty of the public because this "corresponded with the issue of justice". Sakya agreed to go along with the conditions and provisions of the draft because "traditional conservatism was a matter of both policy and practice" in the preparation of the legislation by his ministry and the proposal submitted by the MWR fitted into this established definition:

"Even while working in the Law Ministry I sometimes feel that the Acts themselves are weak but to change the format of the Act is beyond me. Conservatism is a matter of policy."

This support of the traditional ways of doing things by Sakya enabled the two ministries to work out agreements on the details. The structural context of their negotiations was the conventional practice and pattern of legislations designed for other state-owned enterprises and they agreed to maintain the same pattern. For example, the minister of the MWR as chairman of the NEA was compared to similar practice in other state-owned enterprises which had been created under special charter acts. Ministers were as chairmen in the Kathmandu Valley Development Authority and the Water Supply Corporation. In addition, Sakya himself a civil servant, approved the government's participation and control of the authority as opposed to total autonomy because he believed that

state-owned enterprises should not be independent while receiving finance from the government:

"No organization can be independent of the government as long as there is financial dependency. Although organizations may claim independence, this does not work in practice and it may look good in principle only. Organizations have been created as autonomous bodies under special charters but they have not been independent because of financial reasons. All the money is controlled by the government and they need to turn to the government every time they need their annual budget. You cannot do without this relation. Similarly if you do not have people representing the government, coordination becomes a problem. Representation of different ministers in the board ensures moral commitment because when the matter is referred to their ministries they can at least present the issue."

A dominant group from the MWR represented only by civil servants denied participation to others in all negotiations related to the preparation of the legislation. These actors believed that it was the government's domain and responsibility to spell out the nature of relationship with state-owned enterprises and others were treated as "outsiders". No one from the NEC was allowed access and even the general manager of the NEC was not a participant and he recalled how he came to know about the legislation:

"I came to know of the Act on the very day that it was to be passed by the parliament only because I met the secretary of the MWR in the parliament and he told me about it. And I was the general manager of the NEC.....The legislation was prepared by our ministry and the Law ministry and they must have thought carefully about the requirements of the authority. I don't know what happened during their interaction."

The consultants wanted to include provisions for autonomy, commercial operations, profit, etc. in the legislation but they were not allowed to contribute or interfere. The participating actors from the MWR were able "to organize out" (Schattschneider, 1960) any complaints from the consultants by blocking their involvement from all interactions. This use of power ensured non-challenge and John described their exclusion:

"The actual drafting of the Act was done by the staff of the ED and the MWR. The i's were dotted and the t's were crossed by the Ministry of Law but the actual framework of the Act was taken by the staff of the ED and the MWR. I don't know where they got their interpretations from in addition to our ideas. I don't know where the other influences to the draft came from and I prefer not to ask. I suspect there was a certain degree of traditional input, i.e. we have always had this way of doing things and that will get through and that won't get through. It's the usual sort of thing that happens at that stage and it involves traditional civil service ways of doing things."

With reference to the content and contribution of the NEA Act, the lending agencies seemed to be back in the pre-reorganization situation when they proposed total autonomy, non-interference in the day-to-day operations, commercial operations, freedom from government control of the industry, etc. for the authority. The WB stated that the Act did not embody sufficient safeguards to the



autonomy of the NEA because it did not spell out clearly those areas where the NEA could take decisions without the need to consult the government; the NEA's board membership consisted of only government employees or nominees, and the only NEA staff member was the managing director. The WB recommended important changes in the legislation which were not executed until October, 1989:

"HMG/N review the NEA Act with respect to delineating those areas where the NEA can take decisions without consultation with the government and changing board composition to increase the representation of NEA management and reduce the number of government representatives." (World Bank, 1987)

### III. The Organization Structure of the NEA: Internal Stakeholders and Micro-Negotiations

The details of the organization structure was designed by C&L and constituted the main content of their interim and final reports. C&L stated in the final report:

"We have had many discussions with senior people in the existing sector about how the functions of the authority should be allocated between the directorates, and about how the directorates should be organised at the "second tier" and below. We have also circulated Working Papers, discussing possible options and the arguments relevant to the main choices. We have taken careful note of all the comments we had, and we have set out to design an organization structure which meets the needs of the sector in Nepal's managerial and social environment."

John, who was stationed in Nepal recalled that this same structure was under consideration by the management of the industry and he was not aware of any other proposals for a new organizational design very close to the time of the validation of the NEA:

"I wasn't involved in any meeting concerning the organization structure or the appointment of the staff. Until two or three weeks before the reorganization took place everything was set for a fairly close adherence to our structure. I had no contribution or input in deciding the organization design or filling the names in the slots."

The senior management group of the electricity industry which comprised the chief engineer, deputy chief engineer and superintendent engineers of the ED and the general manager and two deputy general managers of the NEC was called to a meeting by the secretary of the MWR

and asked to draw up an organization structure just after the cabinet of ministers had decided on the validation date. These individuals who represented the senior professionals in the industry were given the choice to design their future organization only after the government and the MWR had secured their definitions and interests in the legislation that had already been approved and decreed as the NEA Act by then. The senior individuals from within the industry were given an opportunity to make arrangements for their organization rather than a structure such as the proposal of C&L being imposed by a unilateral decision of the minister or the secretary both of whom had secured their positions in the board of the NEA. The senior engineers with a majority from the ED were asked to play an active self-conscious role in the management of change in which their collective and individual interests were to be decided. The same group of key individuals initially responded positively to the consultants' recommendations and agreed that the design suited the objective of creating a commercial utility; and they were not very much concerned about the implications of the proposed structure. Then, two years later when the implementation of the authority was undertaken, the same people proceeded to work out a new structure that was more in line with their new definitions and interests rather than adopt the proposed structure. These individuals quickly realized that their status and position in the new authority would depend largely on the new design and they started to work on it

to suit their expectations. The definitions of these individuals seemed to be "changeable" as stated in the negotiated order perspective because actors in organizations are continuously engaged in the process of defining situations and constructing their actions.

The chief engineer initiated several meetings with the senior engineers and the organization structure was a result of their interactions consisting of compromises, exchanges and consensus. The structure of the NEA was a negotiated change and hence the majority of the participants could claim that the decision was "our choice", "we were part of the decision", or "we selected what was best". These actors were the key technical personnel in the industry and they were assigned the authority to design the organization as well as take full responsibility for operating it. The minister did not have the time or the interest to work out the details and the secretary left the design work to the senior engineers, being fairly new to this ministry and a non-technical person. The task was largely undertaken by senior engineers from the ED according to one of the participating actors:

"We have modified the structure of Coopers and retained what we liked and discarded what we did not and our proposal was accepted at the higher level. There was no time or interest for people from the ministry to look at the details. Actually all this happened at the ED level. We also involved the general manager of the NEC and few of his senior staff."

A joint effort among the senior engineers was the key contributory factor and this was confirmed by the chief engineer of the ED:

"We decided on the organization design in our meetings and the ministry endorsed our proposal. We had many proposals at that stage from senior engineers and also proposal of the consultant. In our discussion we collectively agreed on the best course of action and adopted this line."

The interests upheld by these central participants guided the negotiations and eventually carried forward a decision on the structure. In choosing an organization design for the NEA, the actors had to examine the requirements of the new organization as a single authority as well as take into account the arrangements of the previous settings and personal and subordinate staffs' positions in the changed context. Hence, their interest in the structure can go much further than the rational justifications expressed by them, such as the facilitation of the development of specialist skills in a functional organization or the functional organization representing all the key activities of an electricity industry. These explanations were legitimate and acceptable terminology in terms of rationalizing organizational functioning but they can conceal the contest for control and covert agreements to maintain stability. In the selection of the structure, the technical considerations related to functional specialisation seemed to have been secondary as compared to the key actors' perceptions on control and contest for

structural positions. Their joint effort was motivated by self-interest and they initiated bargaining to control and maintain their positions. Hall (1972) states that realization of interests, material and ideal, are the "outcomes of negotiated solution, encounters, and relationship". The interest of the participating actors was the key element of the negotiation context (Strauss, op. cit.).

In a reorganization which constituted the merger of two autonomous organizations, the structural context of the previous setting can play an important role in the planning of the new design. The central actors preferred to retain the same responsibilities in a situation that was new and uncertain and their best bet of continuity was to hang onto something that was already in their possession and control, that is, "turf control". The actors from the ED wanted to keep the attractive functions related to project development and construction, engineering and planning. The NEC actors wanted to retain their traditional territory and avoid any kind of encroachment from the ED and this was achieved by not making a claim to share the attractive construction activities controlled by the ED. The working arrangements negotiated by these actors was the continuation of the functional relationship as in the old set-up. A dialectical relationship between structure and negotiations seemed to exist as in the research works of Busch (op. cit.); Denzin (op. cit.). The structural

context of the old set-up generated negotiations and such negotiations reaffirmed the new structure. The key element in this process was the role of senior engineers as conscious, participating actors and the organizational structure and negotiations were critical choices of actors who were capable of creating situations to match their definitions. On the other hand, the definition of situation was influenced by the "sensitive acts of negotiation" (Perinbanayagam, 1974).

The chief engineer as one of the principal actors and the managing director of the authority supported the maintenance of the old arrangement because his preference and concern was to continue operations of the industry without disruptions in the supply of electricity and ensure the smooth performance of the various key functions. He believed this could be achieved by adhering to the old set-up and any attempts at radical changes would be disruptive:

"Our guiding factor was that people should not be confused when we integrated them. The old system was running by itself and it would be disturbing as soon as someone new was sent in. So we adopted a functional organization because this would only cause minimum disturbances to the prevailing set-up.....The main problem of reorganization was that there was a difference in career development of the NEC and the ED staff, difference in the work nature of the two organizations. Therefore with the intention of not disrupting the work that was being carried out, we avoided amalgamating the staff of two organizations and went ahead on a functional basis."

The majority preference for continuing with the past implied replicating the old arrangement in the new. Since both the NEC and the ED were organized along functional activities and their institutional responsibilities were clearly earmarked, it was agreed that the old functional order should be continued. The general manager of the NEC, now the director-in-chief of the Planning directorate, supported sharing the same functions and explained how they came up with the six directorates:

"The ED was doing mostly developmental work, consisting of major hydro-projects and engineering. What we have done is split ED's functions into two units, i.e. Design/Engineering and Construction. The NEC was maintained as a distribution unit and split into Distribution/Customer Service and Operation and Maintenance. That's how you have the key functions in the four directorates. The Planning directorate was created separate, in accordance to the proposal of Coopers and Lybrand."

The minister of the MWR representing the parent ministry and as chairman of the authority endorsed the creation of six directorates proposed by his subordinates. He was convinced that it formed the basis of a reasonable structure:

"The government felt that the six directorates were logical and I was convinced that these six directorates were most logical. I mean if it is distribution and consumption that is logically a separate unit; operation and maintenance equally so. It seems reasonable to have separate units for finance and accounting and construction. Each unit is quite a reasonable organization.....It is a very, very large organization and a certain degree of specialisation would probably help..... You see the other aspect that must be taken into account is that we started with a new organization. We started with a certain structure as it exists now but there is nothing sacred about it. Now if in the working of that structure and the idea as I saw it



was that we should see how it works and having seen how it works, if certain structures within it or certain organizational links within have become redundant or it looks better to reorganize it in a different way, that flexibility is there."

The participating actors distinctly realized that the number of higher management positions provided for in C&L's organization structure was fewer than their requirements, particularly in the top two levels. The prescribed design only provided for four directorates with twenty-four higher level management positions altogether and a hierarchy structure with fifteen grades. In this circumstance, it may have been easier for the actors to find faults with the design of C&L and come forth with their own proposals. For example, the deputy chief engineer of the ED stated that the planned structure was "too compressed" and an increase in the number of directorates presented a "functionally more elegant organization". Another participant from the ED criticized the consultants for not having adequate technical knowledge of a power industry to recommend an appropriate organizational design:

"We felt C&L were good in the area of Finance and Administration and the organization corresponding to this was well worked out. But the technical organizational design was very weak. I doubt if they had technical capability. Hydro-power is the most important source of power in Nepal and therefore the construction of hydro-power projects is extremely important. This is a very specialised subject and we need to develop this area. Therefore, we broke with the Generation and Transmission directorate and opted for functional specialisation. This was the preferred organization."

A top heavy organization structure was facilitated by adopting a functional structure which adhered closely to the older arrangement. Altogether fifty-nine higher level management positions, that is, levels ten to twelve, were created along with an increase in the number of directorates and the posts of director-in-chiefs. The consultants' proposal that some form of differentiation should be made in the status of people who were chiefs of each directorate in accordance with the volume of responsibility and work was rejected because the actors agreed that they were all of the same status at the level of director-in-chief. Consequently, they secured their own posts as well as created sufficient positions to promote a large number of middle level managers from the ED and to adjust the personnel from the NEC who were promoted prior to validation of the NEA. Several of the participating actors admitted that one of their primary intentions in the design was to fit in as many people as possible in higher management grades and I quote a superintendent engineer of the ED:

"In the context of merging the NEC and the ED, all senior managers felt that their positions should be secure. Everybody was vying for positions and so we tried to create a large organization to satisfy the staff. We thought if nine people were fitted in and only two left out then why dissatisfy them. A large framework of organizational structure was chosen because we did not wish to deprive people who had earned positions in the context of the previous organizations. More adjustments were made in the posts of director-in-chief and directors to create a larger organization and to accommodate more people."

The key actors unanimously agreed that the new authority should take in all the staff and everyone should be accommodated in the reorganization. This position directly contradicted the myth circulated by the lending agency and the consultants that the "deadwood" of the industry would be removed in the process of reorganization to create an efficient utility. Nothing of this measure took place because such an idea was never considered or endorsed by the senior managers and everyone was fitted in. The director of the Planning department explained that there was a fundamental problem with firing the deadwood because several of the engineers who were "technically useless and true deadwood" were on the other hand occupying senior positions and politically linked to important power centres. The minister of the MWR who supervised the setting up of the authority acknowledged that most of the senior people had been leaders of the industry and they had to be offered senior management posts in the new authority. These senior engineers who had spent many years in the industry could not be just thrown out and instead they were assigned to higher positions with more authority and responsibility. Miller (1986) states that authority based on competence is always a threat to an organization that defines authority as based on position and so "the imperative to maintain the dependency structure takes precedence over effective task performance". Similarly, the organization structure of the NEA was designed to continue the old dependency structure and the past

performance or efficiency of the "old guards" seems to have been a "non-issue".

Once the six directorates and the departments under each were drawn up, the lower organizations of the ED and the NEC were gradually fitted and adjusted into the NEA. The larger structural context provided the framework within which the senior managers could now initiate an arrangement which they favoured and select their staff. They were given the authority to design their directorates and assign staff to various positions and this situation was ideal for "fitting in candidates of choice" and "dispensing privilege", according to a retired director-in-chief who actively participated in the designing of his directorate. The chiefs were all agreed that the lower organization should not be radically different but more or less in line with the old. The director-in-chief of the Construction directorate stated that there was no difficulty in designing the lower organization because there was no profound change in the overall structure:

"We discussed, designed and decided on the number of directors and managers needed under each director-in-chief to carry out the functions. We did not have problems designing the middle and lower level organizations because we had with us the details of the old structure of the ED and the NEC. Therefore, we followed more or less the same structure for the Distribution and Consumer Service as in the NEC and Engineering and Construction was more or less with the ED. We made slight improvements but no drastic changes."

The choice and emphasis on succession and continuity of the old arrangement by the key actors resulted in an organization design in which the structures of the ED and the NEC and their respective functions and personnel were distinctly earmarked. Three years subsequent to the operations of the NEA, the ADB (1988) commented that the structure was back to the old situation and the NEA lacked organizational effectiveness because of its failure to mould the staff and activities of the former NEC and ED into a single coordinated entity:

"At the professional staff level for example the respective staff of the NEC and ED are segregated mainly into separate directorates - NEC staff in Operation and Maintenance and Distribution/Consumer Services, ED staff in Engineering and Construction - doing the same work as they did for their previous employers. This has contributed to lack of coordination within the NEA, its failure to establish a real corporate identity and apparent absence of strong commitment to the NEA as an institution among its staff."

The participating actors were not only successful in creating a large structure to fit in all the old staff but were able to recruit more new personnel in the enlarged structure which gradually caused the problem of overstaffing. The senior people from the NEA at the director and manager level were partly satisfied because they had been offered higher positions but then complained that there were no corresponding volume of work to match their new position and status. A joint secretary of the MWR who worked for several years in the NEA commented that the management deliberately created a "bloated" organization with too many people, posts and

offices but without corresponding increase in work, that is, the work was no more than what the ED and the NEC were jointly doing together but the expectations of the people had been raised. The ADB mission for the seventh power project (1988) was concerned about the overstaffing caused largely by the extended organization structure and its effect on the efficiency of the authority:

"As of June 1989, the NEA had 8299 employees of whom 750 work in project construction. Of the 7549 operational staff, 481 are officers of whom over 90 percent are graduates. The staff is split approximately 60 percent to 40 percent in technical and non-technical functions. The ratios of employees to installed capacity and to sales in fiscal year 1987/88 were 24 KW and 70 MWh, respectively. These ratios are low when compared to power utilities in other developing countries. (In Bangladesh, the ratios of employees to capacity and to sales are 36 KW and 93 MWh while Fiji has 130 KW and 193 MWh, respectively). While these low ratios indicate overstaffing, the NEA still lacks qualified personnel in almost every key functional areas. For example, in the finance department and internal audit of the NEA, there is not one qualified accountant."

The decision on the organization structure can be interpreted as a result of the micro negotiations that took place among the senior managers. As key participating actors, they were interested in establishing a pattern of control and authority to govern the NEA in line with past arrangements and to secure positions for themselves and subordinates. The degree of differentiation which they initiated in terms of vertical and horizontal expansion of the organizational design does not have much relationship to size or technical reasons as illustrated in the work of Meyer (1972) and

Blau and Schoenheer (1971) but seems to have been mainly based on political considerations. The organization structure was not so much a problem of design or engineering but an outcome of political contest for control. Pfeffer (1978) is one of the few writers who advocates a political interpretation of the organizational structure because he argues that participants in organizations are in a contest for resources and their control. The contest is political and is fought in many contexts within an organization; and the organizational design directly affects control and governance in organizations. Therefore, the contest for control is extended to the design as well and Pfeffer (op. cit.) explains:

"it is inevitable, given the power and authority conferred, that one of the foci of politics within organization will involve the structural arrangements or the design of the organization."

The collusion among the key actors can be analyzed in terms of stability and security with a system that held prescribed, stable roles and defined structures of power and influence. Pfeffer (op. cit.) states that all established structures represent the outcomes of previous bargains and a structural change means that negotiations and old conflicts must be reopened in order to establish new structural arrangement. It may also be argued that continued stability avoids conflict by not reopening past negotiated settlements among participants in an organizational coalition. Stinchcombe (1965) associates

all kinds of structural changes to costs and risks because new roles need to be learned, new patterns of interaction adopted and new tasks and relationship assumed. Thus, if the ED as the more influential of the two organizations in terms of authority and responsibility for managing the reorganization had shown more interest and preference for a "new" order, then C&L's recommendations may have been implemented to some extent. The majority of interacting actors represented the ED and they faced the more radical change of switching over from the civil service to a state-owned enterprise and adjusting to a hierarchy along with the staff of the NEC. They always preferred to keep a distinct profile apart from the NEC since the time when the ADB initiated actions towards the reorganization in the early 1970's. The stability of the old arrangement in the new authority at least ensured that their roles and functions were retained in the changed context. The negotiation of the organization structure can also be interpreted as a mobilization of bias by the interacting actors because they managed to preserve their respective interests and continue the control relationship. Pfeffer (op. cit.) argues that all organization designs are the outcome of power and influence operating within the organization.

Many people from within and outside the industry expressed to me that the organization structure of the NEA was a political choice of the senior engineers and



there was collusion to maintain the status quo with the hierarchy of power and privileges. Several middle level engineers stated that although there was justification in developing specialisation in key functional areas, this was possible in the proposal of C&L because they too prescribed functional departmentation. Similarly continuity for people working in the industry was possible as long as they were allocated the same functions. The key consideration was always the expansion of the structure so as to fit in more people and this was stated by even the participating actors who were members of the negotiating team and were later allocated the job of directors-in-chief. For example, the chief of Engineering stated that a large organization was formed to avoid discontentment for the senior people. The chiefs of Operation and Maintenance, and Construction agreed that more units in a larger organization were established to create specific areas of specialisation as well as to accommodate more people. The chief of Planning explained that there were six people in the industry who had to be given the post of chiefs and therefore the six directorates were created even though the proposal of the consultant was "ideal". The staff at director level who were not participants in the decision-making unanimously agreed that a top heavy organization was deliberately designed for accommodating staff. The director for Planning who worked closely with the chief engineer stated his experience:

"I would say the large organization was created to adjust the personnel. We had to take into account the promotion in the NEC which was done in spite of the fact that the NEA was coming. Promotion in the ED had been stopped for almost two years and we needed more posts to adjust these people. We decided on a functional organization because more posts were possible."

A director from the Construction directorate agreed that most of the posts were created for people alone and this was obvious from the state of affairs after only four years of operation of the NEA:

"The top organization was created to fit in the people. You have over twenty directors in this authority but there is no uniform work for all. Some of them are virtually doing nothing. They wanted to offer these chaps positions and the organization was designed. On the other hand, you still have the same problem as between the NEC and the ED because Distribution/Customer Service and Construction are functioning without any coordination. Same people, same place and same pattern of functioning."

The organization structure can be interpreted as a political choice as admitted by the participating actors and affirmed by others in the industry. These key actors negotiated an arrangement and the use of power in such interaction determined who got what and how and who got left out and why. There was clear evidence that a group of actors, that is, a coalition of interests, dominated in the decision-making of the structure and they negotiated a political choice. There were differences with the consultants' proposals but there was no direct conflict simply because they were not participants in the decision-making or in the bargaining process. This fact was admitted by John who was present throughout this

period but was instead asked to work on improvements of the accounting system. What happened here was that the participating actors were assigned complete control of the decision-making process and this provided the group an opportunity to negotiate their definitions and interests and come up with an agreement. The decision of the secretary of the MWR to involve the senior engineers of the two bodies and not the consultants placed the balance of power in favour of the former. The secretary declared that the implementation of the reorganization was the borrower's responsibility and belonged neither to the lending agency nor the consultants:

"The ADB sometimes tried to interfere in the implementation side and tell us that the consultants' recommendation had not been adopted or they have not been involved. But we had created one organization as was the agreement and I felt that we should have been left alone on the content of the implementation."

The prescription of the consultants was successfully prevented from entering into the bargaining context by the participating actors. In the case of the organization structure as with the legislation of the authority discussed earlier, the consultants were excluded from participating in interactions which favoured the interests of the dominant group and challenges to predominant values or to established norms were avoided (Bachrach and Baratz, op. cit.). The values of the key actors towards the old arrangements and their perceptions and preferences on the adjustment of staff, lead to the creation of barriers to C&L's involvement and suffocation

of their proposals which called for changes in the established order that had deeper implications on the allocation of benefits, facilities, etc.

In a similar way, the exclusion of the middle and junior level staff of the industry from interaction and decision-making on the structure highlights the dominant role of the senior engineers. The grievances of the lower staff on the structure were blocked from expression and the mobilization of bias was wielded through nondecision and barrier to participation by the more powerful individuals. The senior management dominated in the participation and this was experienced by Trevor of C&L:

"The whole Nepalese management system frankly sucks decisions upwards rather than pushing them down. Therefore, the key players in the reorganization were the senior people from the ED and a few from the NEC."

This practice was common in both the ED and the NEC, irrespective of the fact that one unit was part of the civil service and the other a state-owned enterprise. For example, a middle level engineer of the NEC described how everything to do with the structure was decided at the "top":

"There were just rumours that four directorates were being formed but we never got to see anything on paper. This is the tragic part of it. This was all done in a hush, hush. They don't take ideas from others. They feel that if ideas are freely floated then they become part of the idea and have to enforce at least some of it."

This interpretation may provide one of the more important reasons for blocking participation so as to avoid the perchance of any grievance or conflict later on. All interactions were confined among senior engineers in the ED too, as explained by a middle level engineer:

"When it comes to the choice of a structure, our senior and high level officers think that they know everything. Lower staff are never consulted and they do not get an opportunity to speak out their minds and ideas. Here everything is confined and nothing is disclosed to the people affected by their decision. It was a question of the careers of thousands of staff and people should have been told what was coming and what they were getting. The practice is for people in senior positions to look upwards rather than downward at the organization and the staff."

One of the participating individuals in the negotiations explained to me that the junior staff were deliberately excluded from participation, that is, an exercise in nondecision, and all information was controlled at the top because there were advantages to be gained by keeping secrecy:

"You cannot rule the organization if you are democratic in Nepal. So we agreed to disclose very little and not involve the lower staff. I strongly believe in keeping major policy matter secret and our bureaucracy prefers such an approach. Manipulation is possible only in a situation of secrecy. There is also the possibility of creating the wrong impression and testing out various ideas. Lastly, it is just easier to work if secrecy is maintained."

The control of information can be one of the important sources of power in interactions and it was often used as a power resource in the negotiations that took place in the reorganization.

A small change in the organizational structure was initiated in negotiations between the ADB and the NEA during the visit of the pre-appraisal mission for the seventh power project in 1988. Once again the bank as the influential member of the structural context was aware of the limitations of the NEA structure and the mission was specially concerned about strengthening and improving the control and efficiency in revenue and expenditure accounting which could improve the return on investment, the main concern of the bank as the lending agency. The responsibility for commercial functions such as meter reading, billing, collection, preparation of revenue statements, etc. was split between various regional offices and a unit of the Distribution and Customer Services (DCS) directorates and revenue division of the Finance department. The mission was convinced that the staff of the DCS were having difficulty in coping with technical matters in their work with the result that inadequate attention was given to the commercial functions. An agreement was negotiated for establishing a Commercial department with total responsibility for commercial and consumer accounting functions and this reorganization was a pre-condition for undertaking the appraisal study of the seventh power project. As in the previous case of the institutional change, the ADB applied the same power mechanism to persuade the borrower to comply to their definition in negotiations - the loan for the seventh power project was made conditional to actions on the structural change. It was convenient for

the bank to repeat and resort to the same power relationship in negotiations which were successful and effective in the past. The bank's refusal to send the appraisal mission for twenty-one months until the board of directors of the NEA approved the establishment of the Commercial department in March 1989 was an unambiguous use of power to enforce decisions on a negotiated agreement. New agreements on the status and responsibilities of the director, action plans and staffing of the Commercial department, etc. were negotiated in the new loan and included as conditions for loan effectiveness - this is another example of the cycle of interaction between the borrower and the bank and the exercise of power in such dependence relationship.

#### **IV. Staff Adjustment: Conflicts, Disagreements, Negotiations and Covert Agreements**

##### **i. Agreement on the Choice of a MD**

The appointment of the managing director (MD) of the NEA was done by the government according to the NEA Act but the selection of the chief engineer of the ED as the MD was a decision reached by the government after covert bargaining and compromises. The data on such negotiations was not easily forthcoming and accessible but I am confident that the examination of events related to the

appointment of the MD and the contents of interviews with other organizational members who kept close watch on events related to their industry will reveal the political nature of such a choice, that is, that the final decision was the result of negotiations. What I am attempting to do is "to convey some feel for the confusion" (Allison, 1971) by identifying the key players, coalitions and the "games" they played. There were several candidates who sought the position of the MD and it was generally known by people in the industry that so and so were promoting their individual case. The names of several candidates who were closely associated with the power industry in the past and present were circulated and speculated upon at various times but this was all hearsay as there was no formal call for application or any specific criteria of selection designed and made known. In the case of the appointment of chief executives of state-owned enterprises in Nepal, it was customary for the government to make the final selection from several candidates who competed for the job. Similarly in the case of the NEA, two candidates emerged as the main competitors moving closer to the validation date - the chief engineer of the ED, HM and an ex-secretary of the MWR, PP. However, the uncertainty about the appointment of the MD continued very close to the starting date of the NEA as explained by the director-in-chief of Planning:



"No one knew who was going to be the boss of the NEA till the beginning of August. We heard that there was a big tussle between HM and PP. These chaps were running their horses till the last minute. The government should have decided three months earlier on the chief and allowed him to choose his people and plan accordingly."

This was not a simple or straightforward choice for the government and the cabinet postponed the validation for a month because an agreement on the MD was not reached. The MWR proposed in early July that the NEA should initiate operations on July 16 keeping in view the pressure and conditions of the two lending agencies. The staff in the NEC recalled that they came to work on July 15 but not knowing whether they would be coming to the NEC or the NEA the next day or who was going to be the chief. They were only informed on July 16 that the validation was to take place sometime in August. The fierce competition and race between the two contenders for the MD post persisted until the very end when the validation was announced by the government and there was no prior indication which hinted that one was the favourite as compared to the other. A senior engineer with ED recalled how HM was tipped-off to be appointed the MD only few days prior to the validation but the "pulling" initiated by PP caused several days' delay in the formal handing over of the letter of appointment to him.

I am arguing that the appointment of the MD by the government can be explained as a compromise solution

because the two contesting candidates mobilized power resources to influence the decision-making. Both candidates were well connected in their power relationship with people in positions of authority and the common metaphor in the bureaucracy "source and force" was often repeated to interpret this case as well. People explained to me that source and force were two sides of the same coin and one needed both to be effective and successful in the Nepalese bureaucracy. Many people in the civil service had some form of "source", i.e. linkages, but the more important determining element was the force of such linkage which could counter the force of the other's source. Also equally important was an assessment of how much weight the various sources carried in relation to the individuals who were making the decision. This kind of referent power (French and Raven, 1959) of the contending actors entered into the interactions between the members of the cabinet and it was difficult to make an outright decision on one rather than the other. Although the agreement to appoint HM was justified later by many rational considerations such as him being an incumbent in the job of chief engineer, senior most engineer of the industry, actively involved in the planning of the NEA, etc., I feel it may not be speculation to argue that other "political" considerations were more decisive especially in view of the equally valid arguments put forward by many engineers that PP was as "competent" to take up the responsibilities of the MD. I shall contend that the

appointment of HM was a result of the advantages in power relationship, that is, in terms of pluralist power resources and relations to move the negotiations and decision in his favour and, therefore, making him a more powerful "source and force". Having been a key figure in the industry for the past five years as the chief engineer of ED, HM was supported by both the minister and the secretary of the MWR because he was "the easier to deal with" and he was "somebody who would not rock the boat" according to Sieber. On the other hand, PP was a "strong personality" and usually "got what he wanted". HM had very important linkages within the palace secretariat and several respondents stated that his wife was a sister of one of the secretaries of the King. Another senior engineer traced the link between HM who was a keen tennis player and one of the princes who was in charge of the National Sports Council. Last but definitely not the least important point was the "connections" that HM had forged over the years as chief engineer of ED according to several engineers who were familiar with the events in the department. They cited two significant cases in which HM played a responsible role in contracting out multimillion dollar construction projects. For example, a large generation project was contracted to a Korean construction company represented by the elder sister of the King; and more recently prior to the final stages of the reorganization, the Marsyangdi project was awarded to a construction company represented by the queen's brothers. This project was under fire from the local

press because the cost came to U.S. \$4,000 per kilowatt of installed capacity making it the costliest project of this type in the world. The relevant point I am trying to make here is to stress that HM had the stronger power relationship within the government and the royal palace and the latter was primarily important because the King is regarded the "centre of power" in Nepal. Shaha (1982) states that close proximity to the centre of power is of vital importance in the kind of "personalistic politics prevalent in Nepal" and anyone who is close to the king physically or socially or has easy access to him may be in a position to yield power. Any kind of informal contacts tend to take precedence over formal procedures and power is exercised through such relationship and interactions. HM enjoyed backing and support from sources who were closest to the King. This is not to deny the power relationship of PP because he had worked for many years in the water resources sector and the civil service and developed linkages with secretaries in the royal palace and other members of the royal family. The issue this time around was the degree of strength of the "source and force" and HM had a slight edge. This may be also evident from the fact that PP was soon compensated and appointed the chief of another state-owned enterprise by the cabinet of ministers. A compromise and an agreement was reached to favour both candidates because of the power relationships of the two contenders.

## ii. Negotiation of Staff Transfer

I turn to the adjustment of ED and NEC staff into the NEA in the process of reorganization. The consultants recommended new appointment to NEC employees and a transitional arrangement for civil service employees of the ED so as to attract them to the commercially-oriented environment of the NEA. Their report did not include any criteria to be followed for the transfer of employees into the grades of the NEA but they stressed the importance of attractive salary and benefits to retain the best staff. John discussed the assumptions underlying their recommendations:

"This was based upon the premise that provided remuneration and benefits are sufficiently attractive then you will attract the cream of the power sector, engineering, the bureaucratic and administrative areas .....Yes, this was the intention of what we were aiming for. We wanted to try and create an area of excellence in the business with good facilities, incentives."

At the time of validation of the NEA, the government decided that all staff working in the industry were to be transferred to the NEA but no formal criteria or rules had been prepared concerning the adjustment of staff. It was, however, clearly implied that the general rules of state-owned enterprises concerning personnel, salary and benefits, etc. would be applied in the case of the authority as well because its legal status was the same. The staff were allocated posts and positions on a temporary basis in the new organization structure and

this arrangement continued for the next two years while the management attempted to develop and introduce a system of staff adjustment to transfer the staff permanently. This intervening period was marked by a strong feeling of uncertainty and insecurity for the staff and it generated conflicts, tensions, and chaos. Obviously this had direct bearing on the performance of the authority because "nobody was determined about his position or organization and this created an indifferent attitude toward work" as described by the director-in-chief of Administration. John experienced the frustration of the staff and its effect on performance as he worked along with them:

"Staff adjustment caused a considerable degree of heartache taking the time as they did. I think more consideration should have been given to the feelings of staff who felt themselves to be in some state of limbo and it did not do anything to enhance the status of the organization as regards being a good employer towards the staff. I would not liked to have been in that position for that length of time and I would have liked to know a lot earlier.....Even for a long time after validation, people were allowed to get away with saying I don't know who my boss is. I don't know where I fit in the organization, all I know is I am part of it, I don't know where I fit. So even what had previously been happening in the NEC and in the ED ceased at that point because people said I don't belong any longer, the old job that I had I don't do any longer. And nobody pushed him! And it took more than two years in the end before they sorted out and gave people posts, jobs, everything else."

In this situation of uncertainty and change, the quest for securing positions and promotions was the most salient intention of all staff. Since there were no formal rules and regulations, a director-in-chief

described the situation as an "ideal situation for jockeying for posts" and "everything could be possible" if people put in enough effort. An extensive organizational structure with a large number of senior positions was already operational and the interest of the ED staff was to be transferred at higher levels and the NEC staff sought equal treatment.

At the request of the management of the NEA, the PSC presented the first set of recommendations on the transfer of NEC and ED staff in April 1986 and this was based on the rules spelled out in the General Policy on personnel matters for all state-owned enterprises. The PSC resorted to standard rules on the inter-transfer of staff between two enterprises and prescribed the same conditions for the NEA. This proposal generated immediate rejection from both NEC and ED staff and they were supported by the top management and the secretary of the MWR. The rules did not allow any preferential treatment to ED employees some of whom had worked for long years but were in lower grades than their contemporaries in the NEC. In addition, the MD and the secretary of the MWR were interested in upgrading all the professional ED employees by one level in the transfer. The grievance from the NEC staff was that they were not treated to the same rules and criteria as the ED in the conversion of their class grade to the level system grading of the NEA. They voiced their resistance against any form of discriminatory treatment. Following this diversity in

definitions imposed by different individuals and groups, the NEA represented by the MD and the secretary of the MWR (as directed by the cabinet because the transfer of civil servants was to be considered) initiated negotiations with the PSC over the next two years and the second and the third recommendations from the PSC were "resultant" of the understandings reached between them. A completely new set of criteria for staff transfer was worked out which bore no resemblance to the provisions of the General Policy. The secretary of the PSC, Singh, recounted the process and reasons for such a negotiated settlement:

"The General Policy of the PSC did not completely define the situation of a merger between a state-owned corporation and a government department and therefore many issues were open to our interpretation .....The period of reorganization was a transition period and I tried my best to accommodate. Especially the secretary of MWR and I had many meetings and we worked on three or four drafts and had long discussions. I think if there had been a different secretary instead of me things might have turned out in a different way. What I am trying to say is that it depends on the person. For example, the PSC could have asserted that this is our policy and things could not be done differently for this authority. But I did not say this, I supported them."

Even formal rules and regulations of a constitutional body seem to have a "fictional" character as they are open to interpretation and interaction of individuals and their definitions in turn decide the eventual outcome. The negotiated order theory questions the adequacy of formal rules to govern the activities in an organization and gives more importance to continuous negotiations.



Strauss et al. (1963) states that rules are tacitly known and affirmed in daily interaction in their study of the negotiated order of a hospital:

"The rules that govern the actions of various professionals, as they perform their tasks, are far from extensive, or clearly stated or clearly binding. This fact leads to necessary and continual negotiation.....rules here as elsewhere fail to be universal prescriptions: they always require judgement concerning their applicability to the specific case."

Hall (1972) supports the argument of Strauss and friends that rules are limited to solve the problems of consensus, communication and coordination in society. Although rules are supposed to be "the height of clarity and coverage", Hall shares the view that rules are open to negotiations by the participants :

"The fact is that rules are not extensive, clearly stated, or clearly binding. They too require interpretation and definition as they apply to specific situations. In addition there will always be situations that have not been anticipated and contingencies that cannot be met simply by applying a rule.....Furthermore, no one knows all the rules or what those on the books meant when they were enacted.... In addition, rules are used and misused according to the interests of the participants and even "authority" may find it to its advantage to ignore certain rules."

Mannings (1977) in his analysis of two police departments argues that rules and rule-guided behaviour must be examined in context and with reference to the subjective definitions that actors attribute to contextual conduct. He particularly stresses that rules are resources used tactically by participants and by doing so administrators negotiate the limits to manipulate situations for their

own purposes. Blankenship (1976) agrees with Manning and states that "rules and legalistic authority....are best treated as resources in social interaction, often ignored as honoured in everyday life". Likewise, Morgan (1975) states that a social order cannot be understood in terms of rules alone but as continuous negotiation:

"There may be negotiation about the rules themselves, about the circumstances under which the rules may be said to apply or be stretched, or about whether the rules are in fact open to negotiation in the first place."

The main controversial issue in the staff adjustment was the preferential treatment demanded by engineers from the ED. The MD and the secretary of the MWR firmly believed that there was an unparalleled difference between the career pattern of staff of the ED and the NEC mainly in relation to quick promotions in the latter and they tabulated and worked out the pattern of past promotion in the two organizations. They were sympathetic to the demands of the ED staff who like themselves were civil servants and they pursued an argument that all professional staff should be adjusted in higher grades. Apart from this, the secretary of the MWR was working under a deadline set by the cabinet to complete the transfer of ED staff and he was anxious to complete the task as soon as possible so as to make his own mark. In view of the grievances expressed by all ED staff about their removal from the civil service, the secretary was keen to offer them higher levels, to pacify them and make

his task easier. The MD was under similar pressure from his old colleagues in the ED to look into their cases favourably and he strongly supported the transfer of few of them into higher grades in case all could not be upgraded. In addition, he was concerned about the poor performance by his staff in the authority which he believed was caused by the delay in staff adjustment:

"The staff adjustment took a long time and unless this was done, we could not press anyone. We were not able to put pressure on anyone because we were not sure whether the staff would be permanently in the NEA or return back to the government. We could not generate a feeling of devotion or commitment."

On the other hand, the NEC staff demanded the same and equal treatment because they claimed that they belonged to the same industry as a government-owned and controlled enterprise and were following rules prescribed by the PSC. Singh, the secretary of the PSC, opposed any outright preferential treatment in favour of all the ED staff because he argued that many of the senior engineers in the NEC were originally transferred from the ED; the two groups of employees from the same industry should not be treated discriminately; and lastly, the PSC held the responsibility of dispensing justice and protecting personnel of all governmental organizations as it was one of the key agencies of the government. In view of all these differences in definitions and expectations, the main players could proceed with the staff adjustment only by making compromises to their positions and changing their definitions. Any kind of joint action in such a

problematic situation was possible only by negotiations, that is, order is not something that automatically occurs but rather "must be worked at and must occur, to the extent that it does, out of the repeated, reaffirmed, reconstituted acts of participants" (Hall, op. cit.). Strauss et al. (op. cit.) states that that which is repeated, reaffirmed and reconstituted are shared agreements, tacit understandings and contracts, which develop out of give and take, diplomacy and bargaining. Similarly the staff adjustment in the reorganization was a negotiated settlement to which the chairman of the PSC gave his full support:

"The PSC had to be flexible in this situation because you had two very different organizations with different charters and service conditions. No matter what final resolution we would have accepted we could not have made both parties happy in those circumstances. We tried to accommodate their needs within our limits."

The key agreement worked out by the two secretaries was the "lateral entry system" which allowed the adjustment of staff into two higher levels in the transfer. The two secretaries agreed that at least some of the people identified by the management of the NEA should be adjusted in higher grades instead of all staff of the ED. By then Singh was convinced that government engineers should not be put at a disadvantage and they deserved to be given more incentive; he agreed to make compromises:

"Although we could not differentiate too much between the two groups, there were more technical staff such as engineers from the government's side and they could not be put at a disadvantage because most of the project and construction work had to be done through them. The lateral entry system was introduced so as provide some kind of a moral boost to them. This was essential."

The concept of lateral entry as defined by the General Policy pertained to the recruitment of exceptional talent at higher grades in only very special cases. A redefinition of rules was negotiated for this particular situation which gave it a novel meaning. The secretary of the MWR and the MD worked out the criteria for the lateral entry because the selection of staff was considered their responsibility; and they formulated the criteria in such a way that it matched the candidates who were already identified by them from the senior management level and the majority of them were from the ED. Singh was well aware of their intention but he supported his counterpart's strategy:

"We knew the criteria favoured the department people. That was also obvious from the several recommendations we proposed because the intention was to solve the problem of the bigger group. We knew we were taking a soft line."

The secretary of MWR credited the support he received from the PSC which made it possible to reach agreements and make compromises:

"I met the chairman and the secretary at least twenty times to get approval for the various rules on the staff adjustment. It was lucky that they were understanding gentlemen.....similarly the lateral entry rule was approved by them and people were for the first time in the history of the service able to jump two levels."

Another important negotiated agreement on staff adjustment called for equal treatment and application of all rules and regulations to both NEC and ED employees. This was specially relevant in relation to the lateral entry because it was expected to be the most controversial. Since the criteria was drawn up to favour the staff of the ED, the key actors unanimously agreed that the implementation should appear to be fair to both the groups of staff. The NEC should not feel that they had been refused participation. The PSC was particularly concerned about its image as a constitutional body and Singh stressed that the PSC's role should be seen as "fair and just" in spite of the hidden agenda in favour of the ED:

"The PSC is one of the four agencies in our democracy and we are responsible to see that personnel rules and regulations are fair to all.....We felt there would always be a feeling of two groups in any kind of partial treatment. We preferred equal treatment because we knew that higher benefits would be received by the ED as they represented the majority of staff. But because we gave a condition of equal opportunity, everyone had a chance to apply and as a result there was no hard feelings later on."

A mutual agreement on such a condition enabled the secretary of MWR to state that he gave "the same measurement and equal treatment to both the groups" and "promoted the interest of both". The MD went even further and claimed that "fair" treatment was given to the NEC in spite of their past advantage of quicker career progression:

"When it was done this way, we did not differentiate between corporation or department. People who were said to be quickly promoted in the NEC had a chance and those who claimed that the promotions were slow in the department also had a chance. People from both sides had equal chance. We looked at their performance irrespective of their origin, whether they were from the ED or the NEC."

A performance evaluation criteria designed to assess and screen the candidates after they met the requirements of the lateral entry system was the final working agreement negotiated with the PSC. The standard selection criteria for promotion of staff as laid down in the General Policy was substituted and instead a new performance evaluation system was introduced for this single occasion. The evaluation system designed by the NEA management and approved by their board was endorsed by the PSC. Singh explained that the NEA board comprised very senior civil servants whose "working could not be always looked upon with suspicion and doubts" and hence the PSC agreed to their proposal. A selection system that gave higher preference to past performance was decided by the MD and the secretary because both of them agreed that only the efficient staff should be selected in the lateral entry. The MD was convinced that this system managed to screen the best people:

"My stand was that performance was absolutely essential if I was to operate this huge commercial organization. What is the use of a senior member of staff if he is not capable of performance. In our evaluation a senior member of staff only received priority if he was competent and I gave opportunities to those who could work. If you check now you will see that we have given opportunities and chances to those who are capable of working and no one has complained to me on the grounds that he

was not given a fair chance. We have looked at this very carefully and all the performance evaluation has been done on the basis of confidential reports prepared by the three experienced seniors."

The performance evaluation was undertaken by four three-member committees with the participation of board members, directors-in-chief and directors in the different committees and each committee was responsible for evaluation of different grades of staff. The evaluation system does seem like a participatory, democratic and fair process in which members of the senior management were allowed to select their staff on the basis of past performance. Fifty percent of the total marks was allocated for assessment of past performance and the candidates were subjectively evaluated on professional skills, management knowledge and discipline. However, it was a known fact that in both the NEC and the ED performance evaluation was hardly ever done on a regular basis and no such evaluation was conducted in the first two years of operation of the NEA. There was also nothing available in the form of records and yet the performance evaluation for lateral entry took into account the performance of the last five years. In several cases, the evaluator did not know the candidate or had not supervised his performance. For example, one manager recalled how all the results of the evaluation were kept secret but later he came to find out that the members of the committee did not know him because he had never worked under them. This was more evident in the evaluation of candidates who were eligible for the job of



director - the two board members were never direct supervisors of several of the candidates and only the MD was familiar with the ED staff who were selected for the job. Interestingly, all the five candidates who were selected at the director level through the lateral entry system were close associates of the MD from the old setting and were referred to as "pancha pandeva" as mentioned earlier in the report.

Several of the evaluators themselves mentioned to me that much of the assessment was subjective and judgemental and the final allocation of marks was decided after consultations among other members. One of the board members casually stated that he happened to know all the candidates from his long association with the power industry and it was "easy to choose the efficient staff" even in the absence of records. A director-in-chief appreciated the evaluation system because he was able to use his judgement on the performance of subordinates; in addition, this kind of assessment was easy for him because "everyone knows who is what out here". The retired chief of Administration directorate strongly argued that personal linkage was the most important qualification for securing a post in the evaluation system because compromises had to be made to the various "source and force" as soon as there was a provision for subjective assessment. The majority of staff I interviewed in the NEA believed that the secret, subjective evaluation was perfectly conducive to the

predominant practices of compromise and bargaining among the power relationship in the bureaucracy of Nepal. Strong resentment against the staff adjustment and especially the lateral system was expressed by the majority of staff even several years after its implementation.

All negotiations on staff adjustment were carried out in total confidence by the key individuals without the participation and consultation of other staff. Even the directors-in-chief were not participants or kept abreast of the developments. The MD was assisted by several engineers from the ED and noticeably not a single administrative or other staff member of the NEC was allowed access to the interactions. The NEC as a state-owned enterprise was familiar with the rules of the General Policy but they were neither consulted prior to the validation nor allowed participation in the negotiations with the PSC. A senior civil servant who was a member of the board of directors of the NEC stated that priority in the reorganization was always to favour the civil servants of the ED and the NEC was sidetracked:

"I don't think the NEC knew about the details of the reorganization because the corporation was never taken into confidence. There was always much concern for department people, more specifically how to adjust them when they were moved from there. The corporation people were taken for granted - they would be happy to move into a bigger organization. Not much concern was given to their motivation. More attention was given to the motivation of HMG employees."

The general manager of the NEC and now the director-in-chief of Planning admitted that their experiences and expertise in administrative matters was never considered seriously:

"It was the few chaps from the ED who have completely steered the reorganization. It would have been much better if some of us had been involved more in the formulation of rules and regulations, such as the personnel rules. We had behind us twenty-one years of experience but they largely ignored us.....I feel strange when I remember this now. Yes, they should have involved the concerned people from the appropriate sector to get this organization working....Otherwise we would not have had these problems with rules and regulations four years later."

A deliberate blockage of the kind mentioned above prevented grievances from emerging into overt conflict and this exercise of power by the main interacting players allowed them smooth interaction with the PSC. The presence of representatives of the NEC would have probably resulted in different rules and regulations. A mobilization of bias was invoked by the participating players to protect their intention of promoting the ED staff at a higher level. The control of agenda was exercised by blocking participation of potential rivals and this bias which guided the key players was even experienced by an under secretary of the Ministry of General Administration who was recruited as a consultant to advise on the staff adjustment by the management:

"My proposal was: let us first prepare job descriptions and then qualification requirements for all the professional posts and then fit in whoever matches this requirement. Whether he be a corporation or a HMG person. Let us be objective. But I realized that their main interest was to appoint specific people who were already given jobs and positions in the temporary arrangement. They tried to retain the same. It was their internal matter and I left very shortly after that."

Even when several staff from the NEC broke rank and made direct contacts with the PSC to present and protest their case, the outcome was not very successful because the PSC considered only the view-point of the management as rightful and valid. The staff were told that the PSC cannot "look into each and every complaint put up by the individual". The chairman of the PSC supported his subordinates interacting only with key representatives of the management:

"The approach we took was that we accepted the proposal submitted by the management. We considered the proposal sympathetically within the context of the General Policy."

The key participating actors seemed to be powerful people because they occupied top positions in the civil service hierarchy and they tended to fully exercise their authority and control in the decision-making process of the staff adjustment. In addition, the power relationship within the bureaucracy seem to be guided by a tradition in which the top officials were seldom formally challenged and their definitions of situation were accepted by the junior staff. For example, the decisions on the lateral entry and evaluation system were accepted

by the staff even though many of them shared serious grievances about it. They did not initiate any formal protest but rather accepted "their role in the prevailing order of things". Furthermore, the power enjoyed by the senior officials can be closely related to the powerlessness experienced by the subordinates. For example, the NEC staff were unable to oppose the rules on the lateral entry that were decided by their superiors in the ministry and acceptance was the only choice.

### iii. Mobilization of External Power and Covert Agreements

An important organizational change which was brought about by bargaining and mobilization of external power relation was evident in the creation of the "hydro-power project pool" in the MWR during the final stages of the staff adjustment. It should be stated that the project pool was not a body either recommended by the consultants or envisaged by the main actors from the ED/MWR who were closely committed to the creation of the authority. The cabinet of ministers agreed on the creation of a small unit within the MWR, that is, a regulatory body to safeguard the interest of the government several years prior to the validation of the NEA and an under secretary of the ED who was responsible for preparing the proposal for such a unit explained its objectives and pointed out the differences with the pool:

"I prepared a proposal to create a small unit to undertake the work of the government, a similar recommendation was also included in the BEI report. Such a unit was essential because government regulation is necessary on matters such as tariffs, development policy, corporate control of the NEA, planning, etc. All loans for the authority come through the HMG because it is the guarantor for loans. For all these activities I was convinced that a special unit with eight/nine engineers was needed.....Later on at the time of the staff adjustment, a project pool was formed but this was not the special unit we had proposed. The unit was left as it was and the pool came at a later stage. I say that a unit should have been kept and the pool is a misnomer."

There was no provision for creation of a pool during the validation or immediately afterwards because the minister of the MWR who presided over the commencement of the NEA was dismissive to the demands made by the engineers of the ED to remain with the civil service and he insisted that all of them should be transferred. He described the unit that was to be set up in the ministry and objected to the creation of a project pool during the staff adjustment:

"It is certainly true that quite a few of the engineers were unwilling to go into the NEA. I think this is psychology on the part of the people in the HMG that they want to remain and retain their position because it is more prestigious. But this is really a hangover. I mean once the NEA is created and it is an independent authority there is the possibility of a pension, full scale job with all the advantages that you normally get in the civil service. This was purely a prestige point which I don't think they should have considered. So that's prejudice, it is not an argument, logical argument."

"There was an idea to have a small cell in the MWR with about ten engineers ..... I did not realize that there were as many as forty-five engineers now in the pool."

The creation of a pool was neither the intention of the senior management of the NEA nor were they involved in the planning or preparation of it. A board member of the NEA who recently retired from the civil service confided to me that he came to know of the pool only after the decision had been taken and he was disappointed because it was a move towards fragmentation as in the past and thus a step in a backward direction. The chief of the Administration Directorate regarded the creation of the pool as a decision against the NEA Act:

"Even the NEA Act does not allow for the creation of a project pool because the Act states that all the functions are to be taken by the NEA concerning the electricity industry, all functions to be handed over by the ED to the NEA. There was no need to keep a separate cadre of employees because the NEA Act dictates that all ED employees should go over to the NEA."

So how did the decision to create a project pool come about if it was not envisaged from within the authority as a solution to the problem of staff adjustment? After an agreement on criteria for transfer of personnel was reached with the PSC, the staff started to make assessment of individual opportunities and chances of securing higher levels. It was obvious to the staff from the ED that not all of them would be necessarily adjusted in higher levels and a substantial number of them resented the very mechanism and method of the lateral entry system. They complained that divisions and differences were created among colleagues as a result of the lateral entry. For example, a class two engineer

of the ED was interpreted as level nine of the authority in accordance to the rules prescribed by the PSC; few of them were adjusted at level ten and others in eleven in the process of lateral entry; as a result, colleagues who were working in the same grade were now divided into three levels of hierarchy. A large group of engineers realized that their career in the civil service was soon to be terminated without being adjusted to higher grades in the authority. They resented the actions taken by the management which hindered their interests and benefits in a reorganization programme "enforced" by the banks. Although a conflict of interest prevailed, the decision on staff adjustment can be expressed as the choice of the management because they were capable of overcoming resistance from the dissatisfied staff who were allowed very little participation in negotiations and decision-making. The only choice available to the staff was to seek "exit" (Hirschman, 1970) from this situation and this is what they have done to escape the decision of the management, to avoid an agreement in which the management dominated and exercised their power. Simmel (1950) suggests that in all power relationships the subordinate has some degree of power and this seem to apply in the case of the engineers who were able to mobilize power and impose a change, in the form of creation of a pool. Boissevain (1974) states that impetus to change is always present in an unequal relation between those who command more power and their rivals who seek more power. The change which enabled "exit" was made possible by



mobilization of external power sources and covert bargainings with influential individuals from outside the industry who agreed and sponsored the creation of a project pool. In many respects this process resembled the praxis adopted by HM to pursue his own appointment as the MD, that is, such behaviour was part of the social system. A senior engineer who managed to move back to the MWR after two years in the authority described the actions of the NEA management as "pressures and power to enforce the transfer" and he explained his response to such use of power:

"The project pool is the outcome of an unhealthy action taken by the management of the NEA in staff adjustment. They were possessed with over-confidence and they steam-rolled a policy which was not fair to their fellow civil servants. They tried to ignore the long service period we spent in the government. When it happened in excess, some reaction was bound to occur. People started running to the ministers, to the politicians, and to officials of the royal palace. The chief secretary supported the case of the government employees and he tried to increase the number of posts in the pool."

The "running around" syndrome was equivalent to lobbying at various sources to promote one's self-interests and a senior engineer confidently stated that intensive lobbying could make everything possible in the bureaucracy and, furthermore, he claimed the staff transfer was a case of "genuine injustice". In addition, the engineers of the ED were very "powerful" because of their established relationship within the bureaucracy and with politicians according to a director of NEA, himself an engineer:

"The people just refused to go on and they were very powerful people. These senior guys have undertaken so many development projects and in turn done many favours for their bosses and ministers. They have a lot of influence and you think you can push them around. They claimed that they have a right to stay in the government and they were eventually taken back."

The social relation of these engineers can be defined as a "network" that is "a chain of persons with whom a given person is in actual contact and their interconnectedness" (Boissevain, op. cit.). It is from such a relationship that an individual can generate support to counter his rival and also mobilize support to attain his goals thereby influencing the behaviour of others. Boissevain states that everywhere people compete with each other and search for allies, friends, and friends-of-friends to help them achieve their goals. The external sources who were mobilized by these engineers were people in very influential positions who could propose or recommend on their behalf. The central player was the chief secretary who was in a position to influence and make decisions, and he was the main focal point of the lobbying. In addition to holding the position of head of the civil service, he was regarded as "very influential and powerful" because of his extremely close relationship with the royal palace. It was frequently rumoured that his position and opinion on an issue could sway a cabinet decision because he had the complete backing of the royal palace secretariat. Shaha (op. cit.) states that the palace secretariat functions not only as a "relay station" between the King and the

government but "also as a policy and decision-making body using the central secretariat merely as an instrument of implementing policy decisions". Given this context of the bureaucracy, the chief secretary was inundated by the engineers as well as other sources who persuaded him to interfere. His involvement in the creation of the pool was known to many and the director-in-chief of the NEA who was responsible for personnel matters disclosed:

"The chief secretary played a major role in the creation of the pool. The MWR secretary wanted a small cell as originally planned but the chief secretary dictated a pool and he was a very powerful man in the government."

An under secretary of the Ministry of General Administration (and also a member of the recruitment committee of the NEA) was familiar with the chief secretary's interest to create a large pool because the decision involved changes in the structure of the civil service, an issue directly related to his ministry's responsibility:

"Since most ministries which execute developmental projects have some form of pool positions, the same concept was used in this case..... The important point is that the chief secretary was sympathetic to the requests of the engineers of the ED. Being a technical person himself and one time secretary in the power ministry he contributed to increasing the posts of the pool."

The chief secretary who retired from the civil service in 1988 was working in the Asian Development Bank in Manila during my field visit and he admitted his participation and stated the reasons for creating the

project pool in our meeting. He defended the necessity of a pool so as to have a unit in the MWR to manage the water resources of the country, to execute development projects in partnership with neighbouring countries, and to allocate some of the work to the ministry because the NEA was overburdened with too many tasks and responsibilities. He supported the rights of the engineers to stay in the government and passionately argued that "the civil servants are not slaves to be forced to work outside of where they were initially appointed". Therefore, the cabinet decision to create a hydro-power project pool within the MWR with 135 positions was the result of covert bargaining initiated by the engineers of the ED and many individuals in their networks, and the chief secretary was the central authority figure who shared and formalized their definition. His approval of the pool can be expressed as a mobilization of bias in favour of what he considered was appropriate, and he exerted power over the NEA by making a decision that contradicted with the actions planned by the management on the staff adjustment. A nondecision-making situation prevailed because the top management of the NEA was prevented from consultation, participation and planning.

The cabinet decision on the pool was changed subsequently because the secretary of the MWR and the MD expressed disagreements and the royal palace secretariat had to mediate to resolve the differences. The two main

individuals representing the industry opposed such a decision because they did not see the necessity of maintaining a large pool in the ministry when all the activities were already transferred to the authority; they feared a shortage of staff in the NEA if a large numbers of engineers were kept in the ministry; and their work on the staff adjustment was undermined by the transfer of engineers to the MWR. They engaged on making compromises so as to reduce the figure rather than resist the establishment of the pool which was backed by important actors and approved by the cabinet. A joint secretary in the MWR recalled that the secretary and the MD went directly to present their points of view and arguments to the prime minister because this was the only way of stopping the execution of the decision. Two powerful parties were in direct conflict over a decision and the prime minister was unwilling to make any commitment in favour of any one side; he decided to refer this case to the royal palace because of the controversies and conflicts. The final decision taken by the royal palace secretariat approved the creation of a project pool with sixty-five positions. This was a compromise figure which took into account the interests of the two parties and each could claim that the other did not dominate in the decision.

## Summary

The achievements of the reorganization of the electricity industry seem to be a far cry from the original goal of creating a commercially-oriented, autonomous organization operated along the principles of a public utility as envisaged by the lending agencies and recommended by the management consultants in the planned changes. Contrary to this is the establishment of an authority which in many ways resembles the old set-up of the ED and the NEC and ensures continuity for the stakeholders, a situation in creation of new settings described by Sarason (1972) as "the more the things change the more they remain the same". This resemblance with the old set-up in terms of structure, control relationships and operation was possible because of the calculated and intentional choices of the key players who were responsible for the decision-making and implementation of the reorganization. They have complied to the funding agencies' demands and pressure for reorganization so as to secure developmental loans for the future but they have concurrently made arrangements to protect their role and influence in the industry as in the past. The process of organizational change and outcomes was analyzed by studying the four main changes introduced in the reorganization. The analysis reveals that organizational change can be political and negotiation may be the key social process in change; consequently, change is often a negotiated order. A

better understanding of the change process in state-owned enterprises can be achieved by taking into account the multiplicity of stakeholders and their demands, expectations, conflicts and compromises that were negotiated. The analysis of the four changes seem to support my argument that a "political" interpretation of negotiation is essential because the process of negotiation and its outcome can be determined by the use and dynamics of power relationship, especially because stakeholders and individuals in negotiations need not share equal power. The analysis attempted to relate and apply Lukes' conceptual scheme on power to negotiations of organizational changes.

## **CHAPTER SEVEN**

### **CONCLUSION**

#### **Theoretical Contribution**

The central focus of this study has been the exploration of the process of organizational change, that is, the processual dynamics of changing which exemplifies the how and why of change, in government-controlled and owned enterprises. A planned organizational change programme constituting a reorganization of the electricity industry to create a single, autonomous state-owned enterprise in Nepal with commercial and profit objectives was advocated by the influential external lending agencies. An internationally reputed management consultancy firm participated and designed the entire change programme to execute the reorganization. The planned changes and contents which recommended specific prescriptions and improvements in the new organization/authority were altered considerably in the implementation and adoption phase and this "divergence" was studied and analyzed by an investigation into the process of change. A political model for understanding the change process in organizations has been developed in the last three chapters.



This research on the process of change is directly related to the theoretical developments in the area of planned change; and although the literature on this subject is extensive, I was unable to derive a conceptual framework that would provide the basis of my investigation. In the early section of this thesis, I have argued that most of the theories were highly prescriptive and the majority of writers have assumed a rational approach to problem solving in organizations by initiating planned changes. A planned organizational change was frequently recommended in the form of deterministic stages and hence linear theories of process (Berg, 1979) were the main contributions of many of the theorists. This kind of an approach to change was considered to be inadequate by a growing number of critics who argued that the prevalent theories of planned change were divorced from the actual change process. They stated that the contributors of the main literature on planned change failed to say what actually happened during the change process and offered little guidance to exploring and explaining the processual element of change. On the other hand, although there were few indications and suggestions of political dynamics of change in their writings, this concept was never fully developed or pursued because of the aprocessual analysis mentioned above. In addition, their very theoretical assumptions largely based on system theory and humanism placed limitations on further inquiry on this issue. For example, the humanist assumptions propounded a view of

man which saw the self moving towards actualisation, and willingness of people to be honest and open to change. The pioneering work of Bennis (1969) emphasised truth, love and a collaborative approach to change. Greiner (1986) described the interventionists as guided by "the romantic illusion of humanistic scholars" when they recommend a "bottom-up" approach to change for effective outcomes. Mangham (1978) states that the adoption of system perspective in organizational development leads to the view that human beings are not important but "non-human, measurable variables assume great importance since it is these that constitute the bombardment (the bombardment of forces upon the individuals)". Similarly rationality in planned change underlines logic, consistency and determinism (Friedlander, 1976) where the main intention is to discover truth through precise construction of concepts and knowledge.

The assumption regarding the nature of man is an essential component of all social theory and I have argued in this thesis that a political view of organization and change is based on a voluntaristic model of man where people are seen as actors capable of making selection, interpreting other's actions and presenting oneself in such a manner that he/she is able to control the behaviour of others. Consequently, organizational change may be seen as a social construction of reality resulting from the interactions among the key actors and groups. The symbolic interactionism tradition is more

hospitable to the political interpretation of human behaviour because it assumes that "human beings are active creatures, shaping their environments and futures but also facing the constraints bearing on their actions" (Strauss, 1978).

An important consideration underlying the political interpretation of the change process is the view that an organization itself is a political system. An organization is seldom represented by a unitary actor or a monolithic group with united goals and preferences but can be seen as consisting of many individuals and groups such as coalitions, alliances, functional groups, specialists, etc. These groups and dominant individuals share power and hold different goals, meanings and preferences on the choices faced by the organization and they often differ on what must be done and how. This common situation of differences among actors may be seen as an enduring phenomenon and hence conflict is as much a part of organizational life. Political dynamics usually stem from diversity of interests and conflicts; and actions and performances in organization tend to be dominated by social processes in which choices are not made on the basis of rationality but by "wheeling and dealing" and "pulling and hauling". Mangham (1979) describes this as a "micro-political perspective" of organization because "all behaviour at all levels and in all circumstances may be regarded as political - the determinants of who gets what - and in this respect

organization is no more than a continuation of struggle in another form". A view of organizational life in "political-cultural terms" (Pettigrew, 1985; Ranson, Hennings and Greenwood, 1980; Astley and Rosen, 1983) accentuates the competitive tendency of actors and groups in organizations to create and maintain a system of meaning on the basis of interpretive schemes, values and interests; and the resolution of any kind of tension and differences may be the consequence of power dependencies.

A situation of organizational change as in the restructuring of the electricity industry was concerned with the multiplicity of stakeholders who were direct players in the planning, designing and implementation. Although the main operations and functions of the electricity industry concerning construction, generation, transmission and distribution of electricity were undertaken by the two executing bodies, the ED and the NEC, the process of reorganization was linked to several external and internal stakeholders consisting of lending agencies, management consultants, several government agencies, the parent ministry, and many groups/individuals representing the industry itself. The presence of such a wide range of involvement and the influence wielded by the numerous stakeholders required a pluralist view of organizations, that is, the basis for analysis of an organization as a pluralist political system. Burrell and Morgan (1979) define the pluralist view of organizations as reflecting three sets of

assumptions relating to "interests", "conflicts" and "power" and this framework can be used to understand the political dynamics among stakeholders in an organizational change situation. From a political perspective, an organization may be treated as a network of individuals and groups interested in its wider purpose as a whole only in so far as it serves their own individual expectations and ends. Conflict is viewed as an inevitable attribute of social settings and hence it must be institutionalised so that it can find expression. A plurality of powerholders endure in an organization who derive their influence from plurality of sources. The pluralist view of organization is directly opposed to the unitary view which has dominated much of the writings and research on organizations from a functionalist paradigm. The unitary view assumes a cooperative enterprise geared to the achievement of formal goals and members of an organization responding positively to the incentives provided to them. Organizational conflict is treated as rare and to be promptly controlled by managerial action whenever it surfaces. Power as an issue is largely ignored.

The pluralist interpretation is specially applicable in the context of a state-owned enterprise where there is neither a clearly defined principal and agent relationship nor a single responsible principal, and the complex, macro-level structure exercise considerable influence and pressure upon it. The ownership belongs to

the state and it is represented by ministers, legislators, civil servants, etc. who hold very different perceptions and expectations. The use of power to influence the firm's behaviour and performance is very much a part of the organizational process of a state-owned enterprise. Mazzolini (1979) states that organizational actions and behaviour of government-controlled enterprises are the product of various "games" among several individuals within the companies, government representatives and other outsiders who are in positions of influence. Each of the players has the power to move certain elements or pieces of the game in which he is involved but rarely all. Pfeffer (1981) argues that goal or value dissension is an important condition leading to the use of power and politics in decision-making in public sector organizations such as government agencies.

The composition of the stakeholders constituted a complex social system which dominated and influenced the reorganization process. The various external organizations related to the electricity industry comprised important elements of this system and they were represented by a number of key senior individuals who occupied top positions in their respective organizations and were also key actors in the negotiation and decision-making concerned with the reorganization. Allison (1971) describes the players in the bureaucracy as men who are in the job and become players by occupying a position of

shared power. These individuals as players held separate responsibilities in terms of their own positions and there were differences in what they saw and judged to be important. They were responsible men with power and they differed about what must be done with the reorganization, and conflict was inevitable because of the differences in their definitions. For example, the lending agencies defined the need for the industry to be operated as a commercial public utility with clear profit objectives. The influential parent ministry argued for incorporating social objectives given the importance of the electricity sector for integrated national development, and control in the operation of the authority because of capital ownership by the government as in other state-owned enterprises. The senior management of the authority wanted more autonomy and flexibility in its operation and less control from the parent ministry and other government agencies. At the micro level, there were two distinct groups representing the electricity industry and one supported and the other opposed the issue of reorganization. Given these marked differences in the interests and definitions of the actors and the stakeholders who were the key players in decision-making, conflict/disagreement was a decisive element of the change process. As often repeated in the political perspective, responsible players are obliged and expected to fight for what they conceive as right and appropriate; differences in the actors' definitions are not dysfunctional but part of a political process.

Any organizational change is adopted at the cost of making adjustments to the established social order. Such an adjustment can be a serious threat in the case of a radical planned change as in this reorganization because it required major structural changes and caused discontinuity and disruptions to much of the old social order. An institutional arrangement which had operated for more than two decades was held in place by the key actors and stakeholders because the order was a "balance" that took into account their interests. The reorganization and the planned changes threatened this old order and created a situation of uncertainty and instability to many individuals. An element of high risk was entailed in moving from a context of stable relationship to an unknown, new situation where a new order needed to be established once again. This move included the possibility of losses of benefits and gains previously enjoyed by members of the dominant group. A single example of fear of such a risk was the long period of resistance to the reorganization by the more influential actors from the ED. On the other hand, the uncertainty and discontinuity brought about by the planned change was exploited by a few other individuals who saw it as an opportunity to redress their grievances or to increase power, status and rewards.

In spite of the plurality of conflicting interests of the diverse stakeholders and lack of consensus in their goals, the reorganization and various changes



associated with it were implemented. The presence of severe differences which caused frequent conflicts and disagreements did not imply that there was total disorder or that the organization was an arena of "apocalyptic class conflict as projected by the Marxist" (Bacharach and Lawler, 1980). There were limits as well as solutions out of the political conflict because the key players were concerned that unity had to be created out of the diversity and that the industry should continue as an on-going concern. Crozier (1964) presents a pluralist view in acknowledging conflict of interests in bureaucratic organizations but he also makes a very meaningful inference when he states that such struggle is often limited by the members of the organization themselves. McCall and Simmons (1966) state that a social relationship continues because working agreements are developed which allows the actors to get on with the business at hand and is characterized by the absence of large disagreements, rather than clear agreements. Blumer (1969) states that a social order is established through a process of joint action which involves the fitting together of separate lines of actions of members of groups in a social setting confronted by them. The actors will try to jointly align their acts to one another on the basis of establishment of common definitions of the situation through interpretive interaction between them. The negotiated order perspective further explores the notion of joint action and provides a richer explanation of the processes that contribute to a social order, that

is, a joint action involves all the manifestation of bargaining to arrive at some form of order. Farberman (1979) points out that the key underlying theme in Strauss' conceptualisation of negotiated order is his view of "pragmatic" actors who are concerned about "adjustment", that is "it is the sociological process whereby actors come over and against each other to ensure their own survival and, in the process, create, maintain and transform the very social order which creates, maintains and transforms them". Actors can be seen as pragmatic negotiators who "define and construct the world around them, between them and within them".

The process of reorganization and the establishment of the NEA clearly exhibit that organizations are not harmonious, rational entities as reflected in much of the management literature on planned change. Instead the change was adopted by a process of interaction among the stakeholders which can be characterized as a complex process of bargaining, negotiation and making compromises to arrive at stable working agreements. The final decisions and choices were results of negotiations rather than adoption of the planned changes which were recommended with the objective of creating an efficient public utility, i.e. a value maximizing choice guided by rationalistic considerations. Negotiation seemed to be an intrinsic political process that enabled the key players to come to terms with each other's actions and definitions of situation, make compromises and

concessions, and implement the changes in the end. The players accomplished the "macro" goal of implementing the reorganization as preferred by the lending agencies but also managed to achieve their own interests in association with each other at the same time. The key players sought to protect their preferences which were not accounted for or threatened by the consultant's recommendations. The joint actions between the players consisted of negotiations for working out compromises so that their respective definitions of situation were implemented and some kind of a balance between losses and gains was reached. For example, the lending agencies persuaded the borrower to create a single utility if the industry was to receive a continual supply of loan in the future; the MWR still retained its control and influence over the industry and was supported by other related governmental agencies; and the internal actors managed to retain the old working arrangements in the NEA and secured higher positions and promotions. The lending agencies were satisfied with the establishment of a single authority because loan negotiation, disbursement and repayment would be considerably less cumbersome and easier than before. The players representing the industry were keen to preserve the features and relationship of the old set-up. All these changes have been established through negotiations. It was only several years after the inception of the NEA that the lending agencies have realized that the original goal of creating an autonomous, profit-generating public utility has not been

achieved in spite of the establishment of a single authority. They have again embarked on an introduction of a new planned change classified as the "twinning programme" with the French government and financed by the World Bank. Once again a cycle of negotiation was being initiated in the NEA which can be expected to have direct impact on the prevailing order. Further negotiations and changes are very likely as players come together to define the new situation and make claims that defend their interests and goals. The new cycle of planned change supports Strauss' argument that a negotiated order and change has a temporal nature as it lacks permanence.

The many proponents of the negotiated order theory have been chiefly interested in exploring the establishment of a social order at a particular point in time but Strauss and his co-researchers (1963) were also concerned with the question "how can there be order under conditions of change and how can change be made more orderly?". I have stated that the main contribution of this perspective is that it identifies negotiation as a key social process which may be applied to interpret the politics of change - organizational politics is equivalent to negotiation and change is a negotiated order. Negotiation is applicable to a situation of organizational change in government-owned enterprises because the kind of things that are "problematic" seem to prevail and dominate. For example, stakeholders hold conflicting goals, objectives of government enterprises

are seldom very clear and usually very contradictory, stakeholders and many individuals have the power to define priorities and goals, formal rules do not exist or require interpretation, situations are new and ambiguous, and conflicts, multiple definitions and interests are common. In short, an organizational change situation is characterized by many competing stakeholders, groups and individuals acting to control and improve their social conditions and people go about resolving these problems, differences, and ambiguities by negotiation process. Thus, change and social order can be established by negotiations.

The important contribution of Strauss' analytical paradigm is that it highlights the principal features of each case of negotiation and identifies those issues that must be incorporated into research. Farberman (op. cit.) states that the paradigm sensitizes the investigator to the various components and properties of negotiations and compliments Strauss for developing a generic paradigm which, in principle, has universal application to negotiations at all magnitudes of scale, complexity and duration. The paradigm was used in my retrospective study of the reorganization to identify those areas that were problematic and the contents and linkages between the structural and negotiation contexts. Many of the findings from my analysis corresponds with the key points of this paradigm: the embedded structure in the environment reflected a dialectical relationship between negotiation

and such structure; interorganizational relationship was instituted and maintained through negotiations; organizations adjusted to changes in the environment by negotiations; and historical processes had direct bearing on the negotiations. At the negotiation context level, explicit attention was paid to the identification of key players and their stakes in the change, the power relationship between them, the options available to them, the nature of the issues, etc. Much of the early research work on the negotiated order has converged in exploring micro interactions within organizations at the individual actor level but I have argued that negotiation process may be evenly applicable in interpreting the interactions at the macro level where interorganizational relationship is formed and held in place, such as between the international lending agencies and the electricity industry, and between the several governmental ministries and departments and the authority.

The stakeholders were a heterogeneous group of actors and players embedded in a social relationship and all players in such social relationship share and use power. The use of power can be defined as inherent in negotiations of changes because actors are eager to minimize and avoid uncertainty and risk and hence try to bring into effect their definitions and promote self-interests. However, a common fact of social life is that the power relationship is rarely equal and players may exercise varying degree of power to control each other's

behaviour, choices and decisions. In the event, the understanding of the negotiation process is essentially a matter of studying the distribution and use of power. The negotiated order perspective has made significant contribution to the interpretation of the process of establishment of social order and change by classifying the "problematic" elements in organization and treating negotiation as the principal activity in joint action; but it still seems to fall short of presenting an adequate exploratory mechanism through which the process of negotiation and its outcomes can be understood. The analytical paradigm is useful to locate negotiation, actors and the various contextual factors but there still remains the problem of explaining how and why an individual or group was effective, how and why participation was allowed or disallowed, how a change outcome finally came about, how definitions are formed and shaped by actors in negotiation, whose definitions prevailed and why, etc. My line of argument is that the incorporation of power relationship can allow an accurate processual interpretation through which negotiation outcomes are understood. This task has not been undertaken in the development of the negotiated order although several prominent writers from the symbolic interactionism tradition have raised the issue. Hall (1972) states that the negotiated order perspective like interactionism can only analyze the process of interaction but does not account for the power brought into a situation by actors; the mechanism of power can

explain the "how" of negotiation and power helps people organize interactions (Hall, 1987). Farberman (op. cit.) presents a positive review of Strauss' paradigm but he also points out a "major omission" in the conceptualisation of the negotiated order - "Strauss' unwillingness to assume a priori that power, in many guises and disguises necessarily enters into and influences the course of particular negotiations". Power should be related to negotiations and Farberman uses an interesting sailing analogy to develop his point:

"A navigator always feels and sees directly the force of the wind and the action of the waves - and steers accordingly. Yet, over the long run, one of the most influential forces which affects the boat heading is usually unseen and unfelt, and that force, which is both massive and subtle, is - the current. It is difficult to observe and note precisely because the very medium in which the boat is moving is itself in motion and the larger encompassing motion is the current."

Similarly negotiations may be affected by the force of the "massive and subtle deeper lying currents of power" and thus all organizational analysis should demonstrate the affect of power. Mangham (1979) makes a very clear statement on the affect of power in negotiation:

".....power is exercised and no matter by whom, it is an important determinant of the negotiated order; if we know the nature and disposition of the power in an organization we are well on the way to knowing whose definition of situation will prevail. Power is the common currency of all negotiation and, the basis of all social and organizational behaviour."

A further development of the negotiated order perspective was undertaken in this thesis by integrating



power mechanism into the analysis of negotiation, that is, explication of negotiated interactions and outcomes as dependent on the relative use of power by the players. The analysis attempted to develop the concept of power which seems to be only marginally referred to by the several protagonists of the negotiated order without any elaboration on its relationship to the negotiation process. My data on the reorganization of the electricity industry revealed that the currency of power can explain the components, occurrences and outcomes of negotiations between the numerous stakeholders. The power relationship determined the key players, participation and access, successes and failures, choices and preferences, meanings and definitions, etc.; hence an analysis of power was fundamental to an understanding of negotiated orders.

If power can be of such crucial importance in negotiations, it has to be defined or conceptualized before a proper analysis can be undertaken. The existing literature on power relationship in organizations provided some guidance but also posed limitations. First of all, the literature is very undeveloped when it comes to analysing the relationship between change, negotiation and power though I should mention that a few insightful writings have appeared in the area of politics of change (referred to earlier in this thesis); but power mechanism in negotiation is still a largely unknown and unexplored area. The study of use of power in organizations has been largely confined to the pluralist view - analysis of

power is undertaken by an exposition of the successful possession and control of scarce resources. The frequently addressed power resources in the literature include the control of information, access to political areas, expertise, control of technology, control of rewards and punishment, ability to cope with uncertainty, structural positions in organizational hierarchy, etc. Following these examples, an inquiry into power relationship in negotiation could be initiated by an investigation into the successful mobilization of resources to prevail in overt conflict in situations of decision-making. Although such an analysis may generate valuable data on the use of power, the main disadvantage would be the confinement of power relationship to a single definition and forsaking the other views for the sake of "simplicity" of the pluralist view. Since the main objective of my analysis was to locate the various mechanisms of power in negotiation in addition to the pluralist definition, a single view of power was carefully avoided. I pursued the argument that power can be used in situations other than in overt conflict between opponents such as in circumstances of covert conflict or even to ensure that conflict does not occur. Each of these dimensions of power has been accounted for in Lukes' (1974) conceptualization of power and it was adopted for my analysis.

To recapitulate Lukes' scheme very briefly, the one-dimensional view of power is in the form of dominance in

the decision-making situation by control of resources; the two-dimensional view of power may be more covert by control of inclusion or exclusion of issues and actors from the decision-making arena; and lastly, the three-dimensional view of power is executed with consent and acceptance of the other (and without conflict) by controlling the creation of meaning and awareness. It is important to mention that Lukes did not interpret his three-dimensional view as a replacement for the first two views; rather each represents a partial view of power and by itself is inadequate to capture the complete picture of the mechanism of power. A gradual development has taken place in these three views of power with the authors getting involved in evaluation and criticism of constructs and ideas proposed by their predecessors. The early ideas and writings of pluralists such as Polsby and Dahl were reviewed and evaluated by Bachrach and Baratz and they were subsequently able to present their own "two faces of power", in which resources became less of an issue but control over access and agendas to decision-making was the key to power. Lukes' disagreement with Bachrach and Baratz's view of power was based on his argument that power can be exercised in the total absence of conflict and grievance by controlling the awareness of people and he presented his own three-dimensional view of power. In fact, Lukes (op. cit.) traces the deep historical roots of the various concepts of power and he acknowledges the contributions made by the others:

"My argument will be that the pluralists' view was indeed inadequate for the reasons Bachrach and Baratz advance, and that their view gets further, but that in turn does not get far enough and is in need of radical toughening. My strategy will be to sketch three conceptual maps, which will, I hope reveal the distinguishing features of these three views of power.....I shall then discuss the respective strengths and weaknesses of these three views..."

The three views put together present a more comprehensive framework for analysis of power and therefore the appositeness of Lukes' concept for my analysis.

The conceptual analysis of power developed by Lukes has been applied by very few writers in studies of power in organizations; I have attempted to relate it specifically to negotiations of organizational changes in this study. Although as a general rule there are inherent difficulties in studying the use of power in organizations, the identification and analysis of the three views of power in negotiations presented a real challenge. However, I supported the advantages of adopting Lukes' conceptual framework because it was "empirically applicable" and the wider meanings attached to the concept of power made it appropriate for exploring the power relationship in a new context. This framework allowed me to identify and establish the instances of use of power of the pluralist nature as covered in much of the organization literature and build onto it the more sophisticated and subtle mechanisms of power of the two and three-dimensional views which are exercised in situations of covert conflict or even in the absence of

any conflict. The result of this investigation has attempted to present a rich account of the dynamics of power relationship in negotiation which has not been undertaken so far.

The power mechanism of the one-dimensional view is comfortably studied in the negotiation process of the organizational change situation because instances of overt conflict concerning a decision or a choice between the many actors are almost inevitable. Even more so in the case of an organizational change in a state-owned enterprise where there is the presence of external and internal stakeholders who share and hold very different views on appropriate actions and choices. The study of overt conflict itself will enable the analyst to identify the stakeholders and the key actors and the interests and definitions held by each of the parties. The "problematic" related to the process of joint action in change can be considered in the ensuing negotiations and resolutions to the differences and conflicts among the actors may depend largely on the use of power resources. The players who possess and can mobilize power resources may try to prevail in negotiation as well as in the decision-making. Such a concept of power has been characteristic of many of the organizational theorists and I briefly refer to only a few of them. Pfeffer and Salanick's (1974) analysis of decision-making in a university concluded with the relevance of power in decisions on resource allocation. Pettigrew (1986) states

that the most common view of power "is grounded in the differential access to material and structural resources" and those who successfully possess and control scarce resources can be more powerful in organizations in the face of competition and conflict. He refers to others who have used such a view of power - for example, Mechanic (1962); Hickson and others (1971); Pfeffer (1981); Pettigrew (1972, 1973); Hardy and Pettigrew (1985). Brown (1986) makes a similar conclusion about organizational researchers being concerned with influence in explicit conflicts through use of political resources:

"Some investigators have focused on personal influence, such as social attributes that confer power (French and Raven, 1959) or strategies and tactics for interpersonal influence (Kotter and Schlesinger, 1979; Kipnis, Schmidt, and Wilkinson, 1980). Others have emphasized the power conferred by organizational positions, such as location for solving critical problems (Hickson and other, 1971; Pfeffer, 1981b); access to resources, support, and alliances (Kanter, 1979); or structural positions in organizational hierarchies, resource pools, or central activities (Astley and Sachdeva, 1984)."

This overt and apparent one-dimensional view of power relationship was studied in the reorganization of the electricity industry by an examination of successful mobilization of power resources to influence negotiations in a conflict situation. A primary example of such exercise of power was the resource dependency exchange relationship between the lending agencies and the borrower which conferred on the former considerable control over the course of negotiation of loans, on issues related to the reorganization, and the final

decision to create a single authority. The lending agencies were in a position to exercise power because they controlled the vital capital resources needed by the industry. Although all the choices and decisions were stated to be made through a process of "open" negotiations between the lending agencies and the borrower in which mutual exchanges and considerations were taken into account, the banks exercised power when it came to issues related to their interests, and particularly when the borrower started to resist and challenge the creation of a single, commercial authority which was the main interest of the banks. The covenants and conditions related to the reorganization were included in the loan agreements through negotiations and the banks seemed to be able to impose their definitions in the form of working agreements in spite of the resistance mainly because the dependent borrower was not in a position to reject the control exercised by the two main suppliers of financial resources. The relationship between the banks as the influential structural context and the industry was maintained by interorganizational negotiations (Strauss, 1982) and the outcome of these interactions can be explained in terms of the advantages of the power relationship in favour of the banks.

The power originating from control of financial resources was similarly utilized by the MWR when the key players from the ministry negotiated the design of legislation including the composition of the board of the

authority. The civil servants from the ministry claimed that they were the rightful owner of the capital supplied by the banks and other donors because this was a developmental loan given to the government of Nepal at very concessionary rate, and not to an autonomous industry with commercial objectives. Since the ministry was responsible for its repayment and security, its control over the electricity authority that was to make use of such a loan was justified as well. They claimed that ownership of capital and control of operations went hand-in-hand and hence they were able to define the provisions of the legislation of the authority in which control was formalized and legalized. The power from financial control by the parent ministry was the basis for recurrent interferences in the administration and operations of the authority and dominance in all interactions and decision-making.

There were other examples of control of resources and the exercise of power in the negotiations of organizational changes. Most of the bargaining/negotiation and decision-making were conducted at the senior management level with very little participation of the lower level staff. The dominance of the senior staff was the result of their positions in the organizational hierarchy, that is, power conferred by positions. In the case of the NEC and ED and later the NEA, the organizational structures were vertically differentiated into elaborate tiers of hierarchy. An



individual's importance and influence was largely dependent on his position in this structure, and status, authority and responsibility increased as one moved into higher levels. For the middle and junior level staff, personal influence was the main resource to protect self-interest in negotiations. Personal influence in terms of access to political arenas and support from actors in senior and authority positions was always an effective power resource in the context of Nepal where the process of negotiation and decision-making could be "favoured" to suit the "resourceful" personalities.

The possession and control of information concerning the contents and processes of the reorganization was a significant power resource monopolized by a few actors from the ED and MWR and repeatedly used in negotiations of changes. The power from the control of information and its effect on performance was a point noted by Goffman (1959):

"A basic problem for many performances, then, is that of information control; the audience must not acquire destructive information about the situation that is being defined for them. In other words, a team must be able to keep its secrets and have its secrets kept."

The maintenance of secrecy of information was a strategy followed by the key actors and, consequently, they were able to control the events and interactions in the reorganization and keep opposition to the minimum. They were able to hide their true intentions and secret

agendas from the rest until it was safe enough to let the others know. The group/player that held the most accurate information was able to control the negotiations. Hall (1972) states that control of information and control over its use allows insulation, independence, and flexibility on the part of the possessor:

"Possession (of information) gives rise to control either because others are kept in the dark about the dangerous disconfirming, discrepant information because they have limited access to the communication channels or because the actions of others can be anticipated and therefore controlled."

The pluralist view of power as used in the preceding analysis presents very useful examples and insights into power mechanism but one needs to take into account the fact that power relationship in negotiations can run considerably deeper than that observed in overt conflict and decision-making situations. Hardy and Pettigrew (1985) affirm that the analysis of power cannot and should not be restricted to situations of overt conflict - that is to circumstances where power resources are used to produce preferred outcomes in the face of conflict between declared and active opponents. Similarly in his study of power in the Appalachian Valley, Gaventa (1980) reestablishes that those studies which apply only the pluralists' assumptions will neither discover the hidden faces of power, nor understand how they serve to maintain the inequalities as observed by him. Power may be exercised by exclusion of participants and issues altogether from negotiations. Such "nondecision-making"

in negotiations can be done by allowing access to non-controversial actors or issues so that grievances do not develop; or by creating barriers to potential conflicts. There may be several individuals and groups in change situations who can initiate attempts to protect and impose their interests by mobilization of bias in the negotiation process. Obviously the exercise of such power is comparatively more difficult to identify and research than the pluralist model of power. Furthermore, the literature on power reveals that very little analysis has been undertaken on how organizational subunits/groups/individuals gain access to decision-making or how decision agendas are controlled, or what biases shape the "nondecisions" in organizations.

The power mechanism of the two-dimensional view was evident in the reorganization of the electricity industry and my analysis indicates how this covert and subtle power relationship was used by the key actors in the negotiations. The power was apparent and repeatedly used in both "macro" and "micro" negotiations, that is, between institutions as stakeholders and among organizational members of the industry respectively. For example, the ADB negotiated "out" the idea of a two-body institutional arrangement when proposed by the representatives of the borrower and the organizational studies by the management consultants were conducted to strengthen the bank's position on the reorganization and to suffocate opposition and possible conflict. Similarly,

the dominant key players of the ED/MWR who worked out the main contents and implementation of the reorganization including the legislation, organization structure and staff adjustment, controlled access of the management consultants who designed the reorganization programme and other actors from the industry. All access to negotiation was controlled on the basis of interest, commitment and urgency of an issue to the key actors and access was prevented whenever a potential threat to their definitions was anticipated and experienced. Hence the control on inclusion of participants in interactions varied from issue to issue. For example, the legislation was a very sensitive document which spelled out the goals, objectives and future direction of the authority and its relationship with the MWR. Negotiations were conducted at the highest level with participation of only few senior actors from the MWR and ED who shared a common vision and perception concerning the preservation of influence and control of the ministry, i.e. a historically shaped mobilization of bias to retain an instilled practice. On the other hand, the details of the organization structure was not a major concern to the ministry but was specially important to the managers of the industry. All the senior managers from the ED and NEC were allowed participation in the negotiations of this issue that was of personal interest to all of them. The staff adjustment was dominated by the secretary of the MWR, managing director and secretary of the PSC, but access to the NEC was controlled because the key players

shared a hidden agenda - to "compensate" the government staff which was biased in favour of the civil servants. Finally, the cabinet decision on the project pool was instigated by the chief secretary of the government with covert agreements with external authorities and individuals but the negotiations did not include the involvement of any actors from the MWR or the management of the authority who opposed the creation of such a pool.

There are relatively even fewer empirical studies on the three-dimensional view of power in organizational settings although a growing number of writers have acknowledged agreement with such a concept of power. One of the probable reasons may be the practical difficulty associated with undertaking research - for instance, Lukes admits that it is very difficult to identify the occasions when such power is used. Brown (op. cit.) states that very little attention has been paid to this view of power because of political, methodological and organizational reasons - the political economy of organizational research discourages investigations of a phenomenon that managers prefer not to disclose; "unobtrusive" power relations are largely invisible to methods that do not permit "richly textured analysis of complex situations"; and lastly, organizations being very tightly "organized" can obscure the subtle dimensions of power. However, the state of the empirical research should not in any way undermine the utility of the three-dimensional view. Its important contribution is that by

interpreting power as the ability to shape and form other's definitions of situation, it is consistent with the ideas developed in symbolic interactionism. Power can be exercised through social construction of meaning and by making people accept their role in the existing order of things where domination may be perceived as legitimate and not challenged. Since the negotiated order perspective presupposes that people as actors will hold different definitions, it can be expected that an actor who is capable of shaping other's perception on issues and events, that is, definition of situation, can dominate and influence the ensuing negotiations and social interactions. In this sense, this view of power has special significance for analyzing the outcomes of interactions by exploring how and why a definition has prevailed. An equally pertinent argument is that the successful use of this power can also set limits to negotiations because an acceptance of a meaning imposed by the other can bring about an end to a bargaining process or actors may not even be seen participating in negotiations where situations of complete consensus or quiescence already exists. The process of negotiation is usually associated with conditions of conflicts, differences and choices and therefore the juxtapositioning of negotiation and quiescence may appear to be paradoxical. However, the state of quiescence can be enforced by the exercise of power (Gaventa, op. cit.) and this underpins my argument that the outcomes of a

negotiation and its presence or absence may be dependent on the power relationships in the social setting.

An example of exercise of power by creation of a meaning that was received by other people because they accepted their role in the existing order of things was evident in the predominant role played by the actors representing the MWR. They were in agreement that a control relationship should prevail again between the ministry and the industry in the context of the creation of a new authority. These actors jointly adhered to a social meaning which had dominated the relationship between the MWR and the electricity industry over the past twenty years and the majority of staff working in various autonomous bodies within the industry accepted their role in it. This was the legitimate way of organizing the relationship because the practice was established over a long period of time and it also confirmed with the general nature of linkage between other state-owned enterprises and their parent ministries. Moreover, the support from the Ministry of Law and Justice supplemented the legitimacy of the meaning postulated by the actors from the MWR. The negotiations on the composition of the board, the organization structure, and to some extent the staff adjustment were guided by the dominant values, ways and culture of the industry, that is, the argument that "this is the way things have been done and this is the way things should be done". The key actors wanted the culture

and meanings associated with it to continue even after the changes brought about by the reorganization. For example, the composition of the board should represent all the key ministries and the majority should be held by the civil servants as in the NEC and other state-owned enterprise; organization structure should retain elements of the old arrangement as in the NEC and ED; and civil servants need to be favoured in staff adjustment. Although this last decision was confronted with some degree of grievance by the people from the NEC, the key actors from the ministry were able to execute their definitions and rules on staff adjustment. This kind of dominance in power relationship by actors from the ministry relates to Brown's (op. cit.) description of the formation of an "influence paradigm" in organizations from established practices which determines who has power, how it should be exercised and what limits there are. This paradigm provides a shared context among the organizational members which can determine the subgroup awareness by creation of values, beliefs and culture. The influence paradigm compels and legitimatizes power distribution and its use in organizations.

The role played by the royal palace in the reorganization, even though it was a body formally outside the framework of the government needs to be appreciated as an exercise of power. The palace has historically exercised control over the bureaucracy to the extent that virtually all major decisions are taken



by or with the full personal knowledge of the king and the palace secretariat. Beenhakker (1973) elaborates upon the power of the royal palace in Nepal:

"During the past decade, the Crown has become the pivot around which the traditional interest groups, the sacred elite, the military, and the landowning aristocracy still revolves. These groups gain access to the royal palace through their supporters and representatives on the staff of the palace secretariat.....The palace secretariat has become the nerve-centre of administrative and political structures in Nepal, even though its dominant policy and decision-making role is not defined via the law or within the constitution of the country.....The palace secretariat today functions not only as a relay station between the king and the government but also acts as a decision-making component, frequently using the central government's secretariat as an instrument for the implementation of decisions. This situation has led to a 'dual government structure'."

Blaikie, Cameron and Seddon (1980) agree with Beenhakker's analysis in their research on economic development of western Nepal and they state that the overwhelming power of the palace secretariat not only limit the independence of the government and dominate the running of the central government but all ministers are directly nominated by the king from among the members of the national assembly and retain their positions only so long as they retain the confidence and approval of the king. In his recent research on poverty in Nepal, Seddon (1987) concludes that the role of the palace secretariat remains of major importance even a decade since Beenhakker's study and after several political reforms allowed by the king; and he states:

"What becomes official policy is strongly conditioned by the views emanating from the Palace, for the king remains the head of state in practice as well as in theory as has very considerable influence on the direction and character of the government policy."

The palace remains a salient, overpowering force and its influence within the civil service is concentrated at the top among those bureaucrats who compete and manage to reserve it's favour. As a consequence, the role and performance of the senior bureaucrats is determined by the interests of their sponsors in the palace. The civil service bureaucracy including the state-owned enterprises is operated on a principle of patronage on a massive scale and the "level of opposition remains for the time being relatively low" (Blaikie, Cameron and Seddon, op. cit.). Pandey (1983), a senior civil servant who resigned from the job of secretary of Finance in 1981, describes the senior bureaucrats as "elites" whose interests match with those of the ruling class and both of them want to retain the old ways of life and political influence. The elites and their patrons are keen to preserve their traditional role and status system while receiving the material benefits that flow from the attempts at economic development.

The dominance of the palace was conspicuous in the reorganization as it intervened in the negotiations concerning the selection of the managing director and the creation of the project pool; in addition, all other major decisions on the reorganization were referred to it

for approval. The decisions of the palace were results of "bhansoon", a Nepalese institutional practice which is similar to but probably more potent than the universal act of pressure groups lobbying. This practice is analogous to the tradition of "source and force" and Abueva (1975) states that the entire civil service in Nepal functioned under this system:

"'Source': having a contact (friend or relative) who had the power to do what you wanted him to do. Source was rarely considered in isolation. It was taken for granted that one's competitors also had sources. Therefore, one must discuss the relative power of one's source: source and force. The ultimate belief was that every rule, every law and every structure could be bent to one's purpose if an adequate 'source' were at hand. As individuals, Nepalis tended to believe this without question, regardless of their place of employment, because they saw that it worked."

In this respect, there was a good deal of covert bargaining and negotiation between the members of the palace secretariat and civil servants because of the significance and effectiveness of informal communication and personalized interaction to secure one's interest in Nepal. The senior civil servants as elites and supported by the palace took into account the interests of their patrons/masters and this relationship was crucial for their dominance in the electricity industry and their power and performance in the management and negotiations of the reorganization. The final decision of the palace worded as "By the command of HM the King" was the result (Allison, op. cit.) of covert negotiations and such a decision once made public was universally accepted in the

civil service because it fell within the traditional ways and values; that is, a culture of the Nepalese people which has been strengthened over many years. A definition assigned by the palace was readily received because of several reasons stated by Lukes: "...that they accept their role in the existing order of things, either because they can see or imagine no alternative to it, or because they value it as divinely ordained and beneficial". The staff in the civil service have been socialized into a culture in which the actions and decisions of the palace are looked upon as the legitimate choices and ways of doing things, and this kind of domination was not challenged. The exercise of power has taken place through thought control and was accepted by the civil service as a result of a socialisation process (Lukes, op. cit.); hence domination was assimilated into the culture of the social system. Fine (1984) states that the analysis of negotiation should pay more attention to the specific contents of negotiations and address the cultural components embedded in it more directly.

In summary, the contribution of this thesis is a political interpretation of the process of organizational change. The pluralist nature of organizations especially in the creation of a new state-owned enterprise by merger of old settings and the intrinsic features of a political model such as the multiplicity of stakeholders and actors, corresponding interests and definitions, conflicts, etc. have been included in explaining the

process of change. Change may be seen as created out of interactions between actors and negotiation can be identified as the key political process in change. The negotiated order theory and particularly Strauss' paradigm identifies the importance of structural and negotiation contexts and draws attention to a list of variables for an analysis of a negotiated order but I have argued that it can still be inadequate for explaining and understanding the processes and outcomes of negotiations. The inclusion of power mechanism in negotiation can overcome this limitation and also provides solution to a problem area that has been referred to by several theorists. The two contributions of this analysis are: first, it presents an empirical study that highlights how the use of power may determine the process, content and outcome of negotiations in organizational change; second, the power relationship in negotiation viewed in multiple dimensions can present a rich and comprehensive picture of the power dynamics in organizations.

### **Implications for Further Research**

The writers on planned change and organizational development have churned out a vast collection of literature over the past three decades but the majority of contributors seem to have taken an aprocessual and apolitical view of organizational change. Even where and

when the subject of politics has been indicated in their analysis, the issue is undervalued or only briefly referred to. On the other hand, the writers on power have often neglected the implications for managerial behaviour and change. This research on the process of planned organizational change has concluded that change can be seen as a political process where plurality of stakeholders and players interact, and negotiation may be interpreted as the key social process of decision-making and choice. Power is the currency which can determine the process and outcome of all interactions including negotiation. Future research on organizational change should adopt a political framework and pay more attention to negotiation and power processes. This can enhance our understanding of the politics of change and contribute to the development of the negotiated order theory.

A political analysis of organizational change can be emphasised and recommended for further research in state-owned enterprises. As a matter of fact, there are very few research studies that have taken up the subject of organizational change in state-owned enterprises and the existing literature mainly deals with contributions made by the enterprises in terms of macro economic objectives of the state, or criticism on the shortcomings of enterprise performance, or contribution of government intervention to political battle of the state. For this reason Vernon (1981) states that state-owned enterprises require "a depth of analysis and understanding comparable

to that which scholarship has achieved for the large private enterprise". The political model of change may be applicable to analysis of organizational change in state-owned enterprises given the "political" nature of these enterprises in both industrialised countries of the west and in underdeveloped nations. Vernon (op. cit.) reviews the publications on state-owned enterprises from the developed west and states that the behaviour of these enterprises is affected by a bureaucracy with values and objectives distinguishable from those of the public enterprises at large and that they are the target of a complex set of pressures emanating from government offices and interest groups. Suarez (1985) characterizes government enterprises in underdeveloped countries as existing in an intricate network system of interlinkages and their behaviour and performance being constantly influenced by external units which are able to define goals and objectives in time. Somasundaram (1985) accentuates the influence of "interlinkages" on state-owned enterprises in developing countries and he classifies them as stakeholders who "squash" and assert their goal-setting rights and formal and informal powers. He portrays a state-owned enterprise as a complex set of interrelated processes reflecting a reality consisting of "interplay of operating and emerging power groups and elites, the balance of local, provincial and regional weights and different forces and powers". The political nature of all state-owned enterprises implies that the process of change can be accurately captured by an

analytical framework in which negotiations and power mechanism among stakeholders are recognized as key social processes.

Sarason (1972) states that the creation of new settings generally confirms that the more things change the more they remain the same and hence there is something wrong in how countless new settings have been conceived to deal with problems of the old set-up. Berg (op. cit.) uses the terminology "paradox of change" to explain a similar phenomenon when the outcome of a well-planned change programme in a Swedish company turned out to be quite contrary to what was intended, and even resulted in opposite effects at times, in spite of the fact that the quality of the change activities was high (in terms of the preparation, performance, follow-up, etc.), involved professional consultants, and was supported and promoted by the president of the company. These experiences and failures in attempts at organizational changes and the non-achievement of planned consequences compare with the scenario of the reorganization of the electricity industry in Nepal. A political analysis (as undertaken here) can explore and unfold the processes of change, and present various explications to outcomes and the paradox of change.

This research concentrated on a major planned organizational change that was impelled by the powerful lending agencies on an industry reluctant to make the



adoption to the new arrangement. The politics in change originated largely in the negotiations between the lending agencies and the electricity industry and in the interactions among the other stakeholders who attempted to make deals and compromises so as to remodel the planned changes to suit their own definitions and expectations. The profusion of political negotiations throughout the process of planned change can be attributed to the fact that this was a radical change imposed by an external structure on an industry that was desperately dependent on it for financial resources but also favoured sticking to the old institutional arrangement. One could anticipate that the nature of political and power dynamics may be different in a major planned change programme initiated and supported by the management team of the industry. Although negotiations may still be the key social process in such a change initiative, the differences in the power dynamics and relationship as compared to a situation of change imposed by external stakeholders is an area of future investigation.

The strength of Lukes' analytical scheme is that it furnishes the possibility of understanding power in either the three or two or one-dimensional view and thus seems to offer an expanded notion of power than that presented by either the definition of the pluralists or Bachrach and Baratz's "second face" of power. Hence I was able to explore and identify power in its multiple

dimensions in negotiations of an organizational change. I have interpreted and used the three views as analytically and conceptually separate with distinct assumptions about the nature and roots of power which closely followed the distinctions drawn up by Lukes. Further research could be undertaken to study the interrelationship among the three dimensions and to assess the accumulation in power whereby each dimension serves to reenforce the strength of the other in the process of negotiation. For example, initial dominance in negotiation and decision-making could make a player more powerful in the second round of negotiation where he may be able to control the access of agenda and actors. On the other hand, an established myth or culture of an organization may either restrict or favour different interpretations and negotiations. Gaventa (op. cit.) argues for an interrelated understanding of the three dimensions:

"The power of A to prevail in the first dimension increases the power to affect B's actions in the second dimension, and increases the power to affect B's conceptions in the third.....the total impact of a power relationship is more than the sum of its parts. Power serves to create power. Powerlessness serves to re-enforce powerlessness. Power relationships, once established, are self-sustaining."

Likewise, Michel (1915) uses all three approaches to explain the interrelated impact of power. Once a leader is able to dominate in decision-making in an organization (one-dimensional view), he can create barriers for exclusion of certain players and issues (two-dimensional view) which develops a further effect upon their

consciousness of their own power (three-dimensional view).

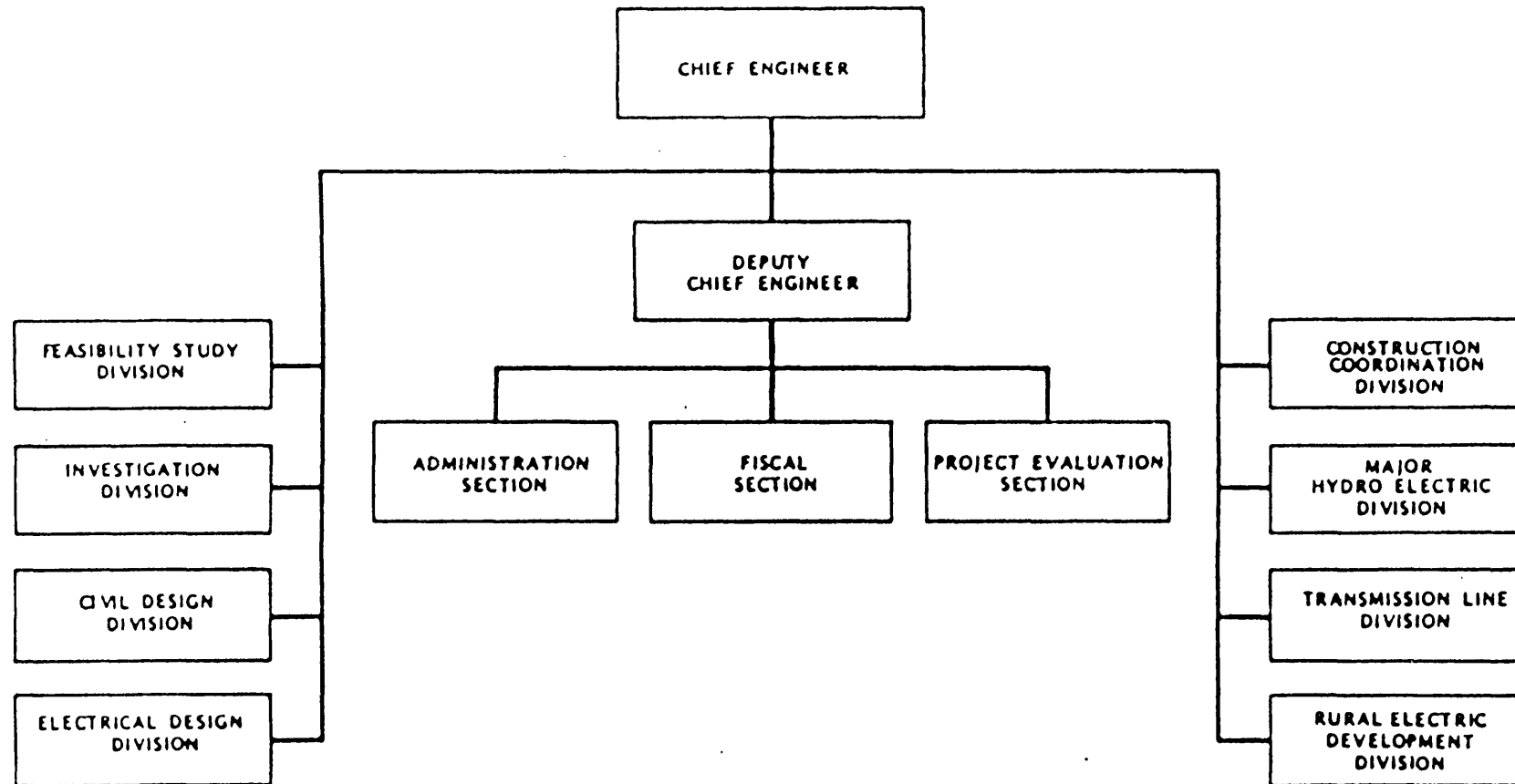
The third dimensional view of power is exercised by shaping or determining the wants of others which results in the establishment of myths and culture; but Lukes is not very clear on the process of shaping perceptions and wants by the powerholders. One probable explanation as discussed above is that the continual use of power of the one and two-dimensional views can contribute to the powerholder's ability to exercise power over other's consciousness. I would argue that the process of social construction of meaning can be possible because of an established culture or theme in an organization and a culture is a social order that has been negotiated among the key actors. An investigation into the how and why of the three-dimensional view of power will require an exploration of the negotiated definitions supported by the principal actors and their motives, interests and intentions.

My research was conducted under several limitations which could be improved upon in further research into power and politics of organizational change. First, a study on the process of change requires a long-term and detailed longitudinal investigation but I was forced into making concessions and compromises because of the time constraint under which I was conducting my field research. Although I have tried to identify the key

elements in the vertical and horizontal analysis (Pettigrew, 1985) to present a complete picture of the several organizational changes, a few less obvious issues were understandably forsaken. Second, I have tried to analyze power relationship in negotiations with historical data gathered from interviews. I realize that participant observation of "face-to-face" negotiations can be a very effective method of inquiry into all kinds of power relationships and especially the three-dimensional view which is best located and explained by close observation of the organizational members over a long period of time. Therefore, these limitations could be acknowledged and improved upon in future investigations and the ideas I have explored in this research could be further enriched by new studies on the process of organizational change using the negotiated order perspective.

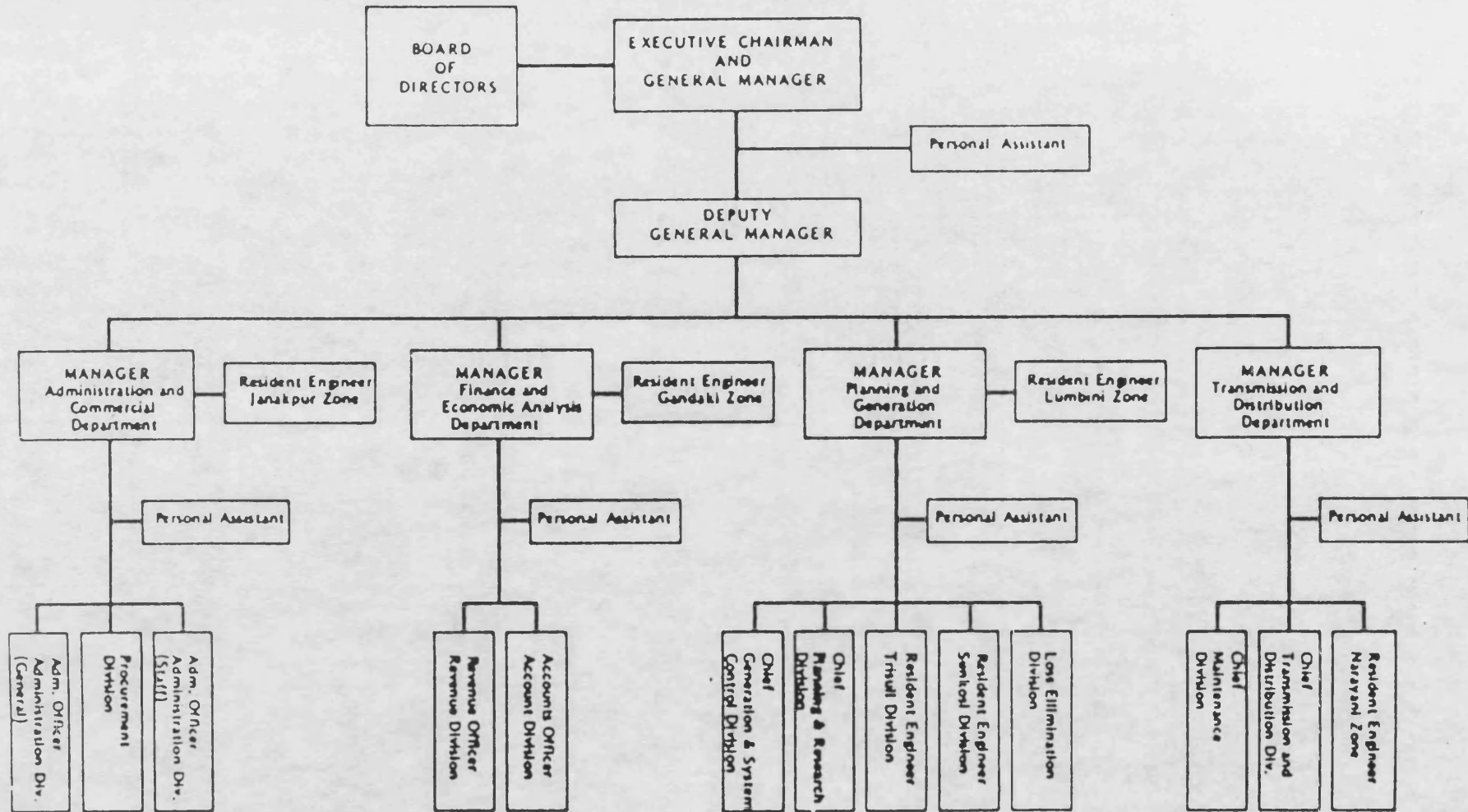
In conclusion, these are some of the potential research issues suggested on the basis of my experiences and findings from this investigation.

**ELECTRICITY DEPARTMENT  
ORGANIZATION CHART**

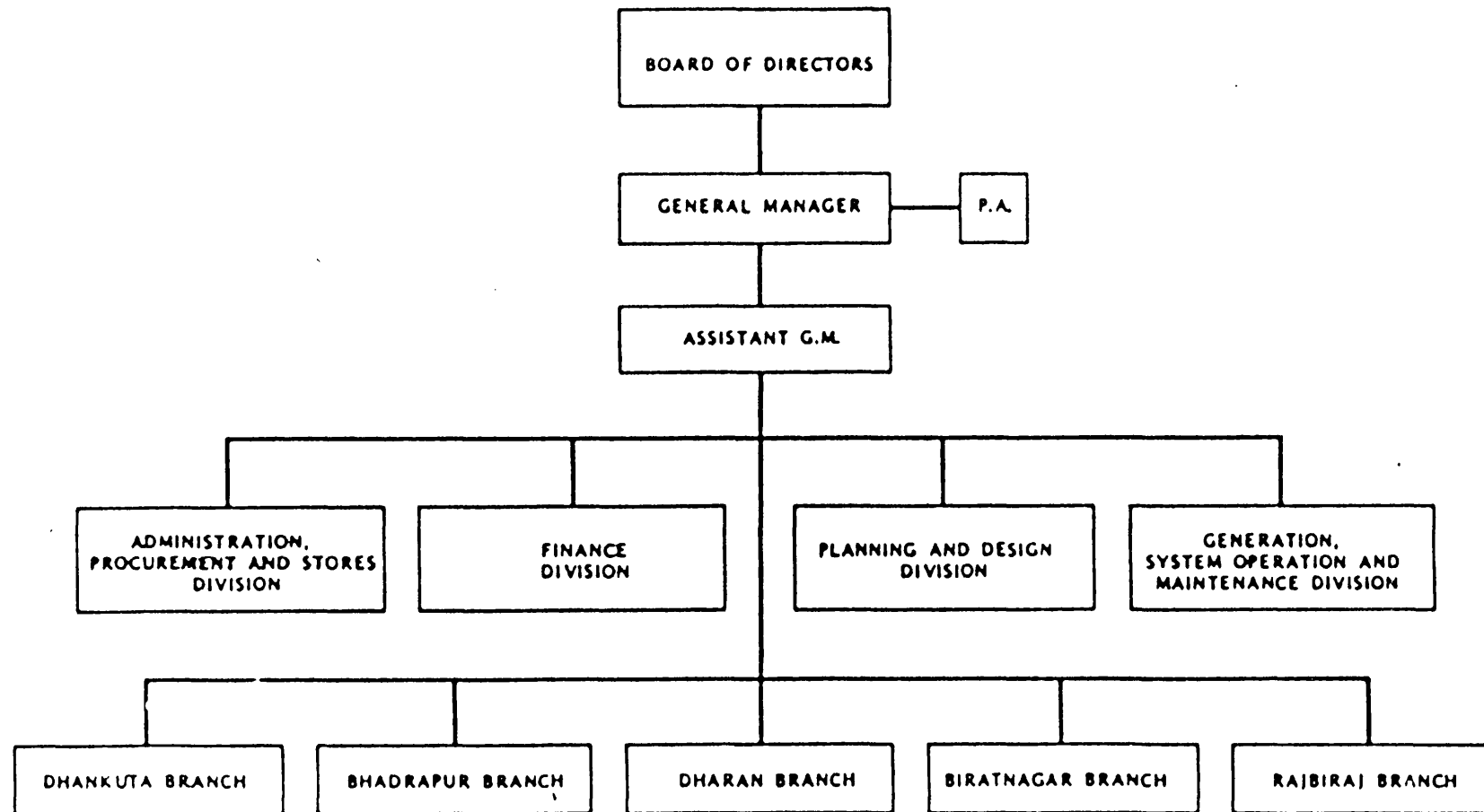


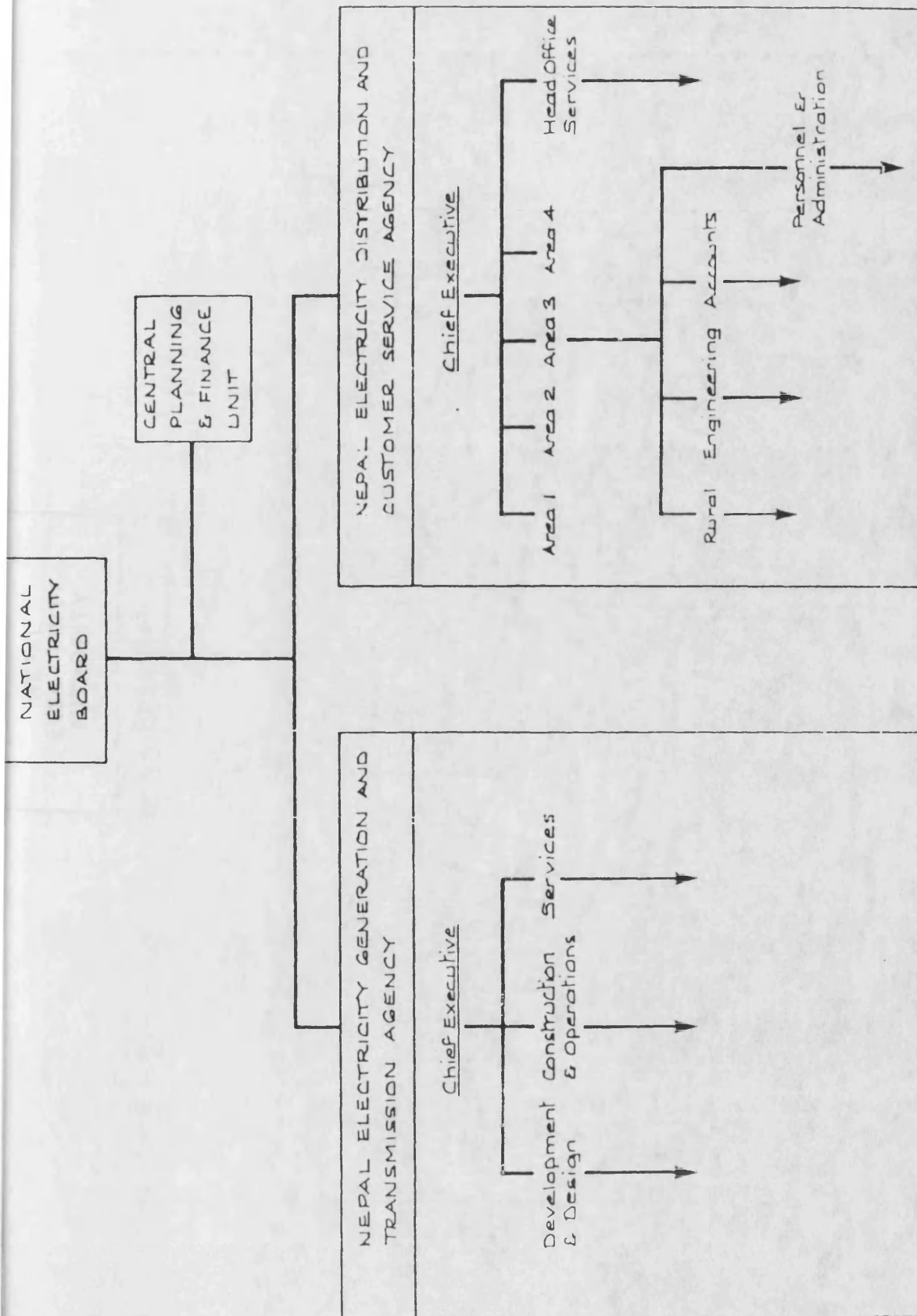
# NEPAL ELECTRICITY CORPORATION

## Organization Chart

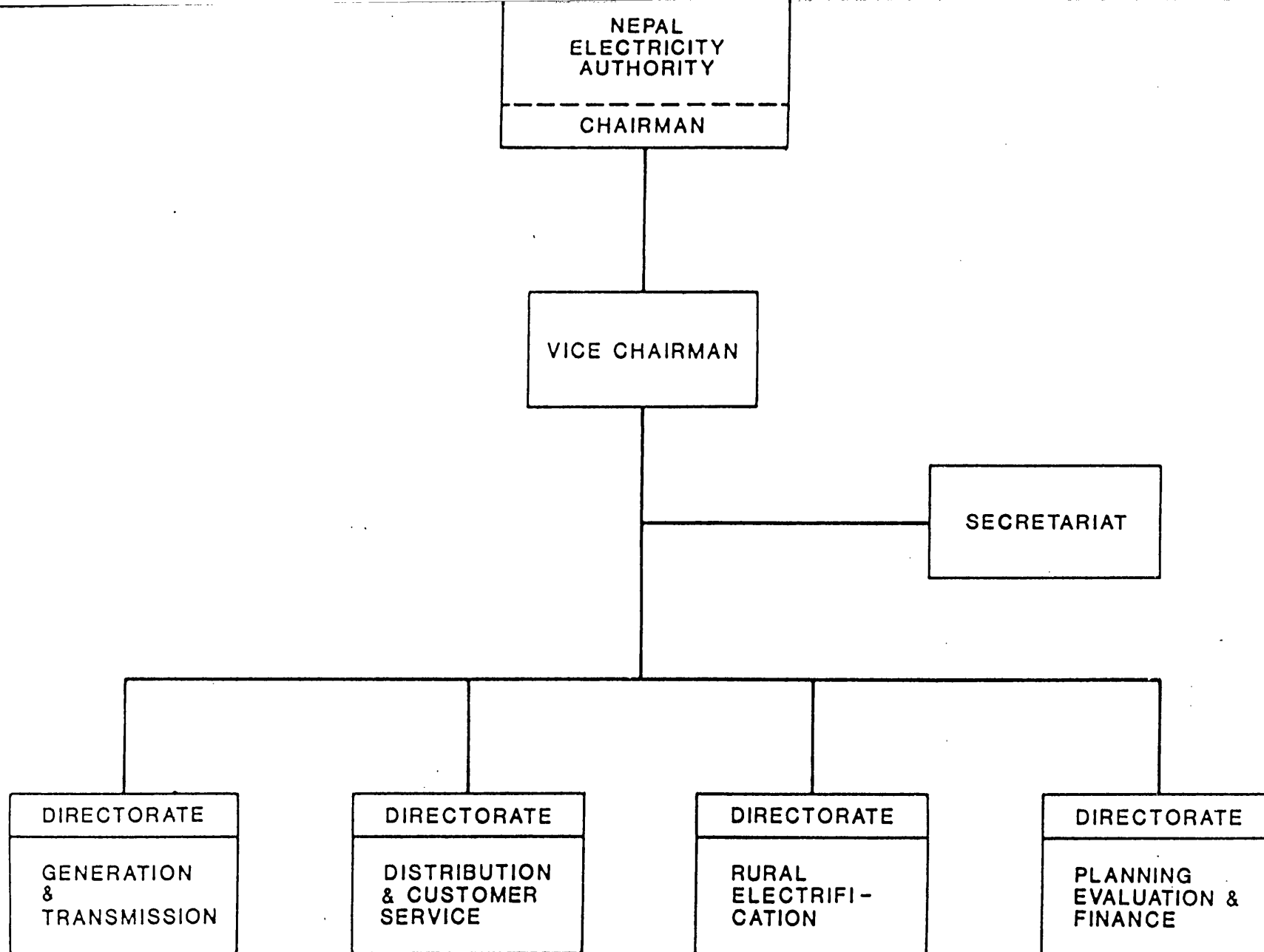


# ORGANIZATION CHART

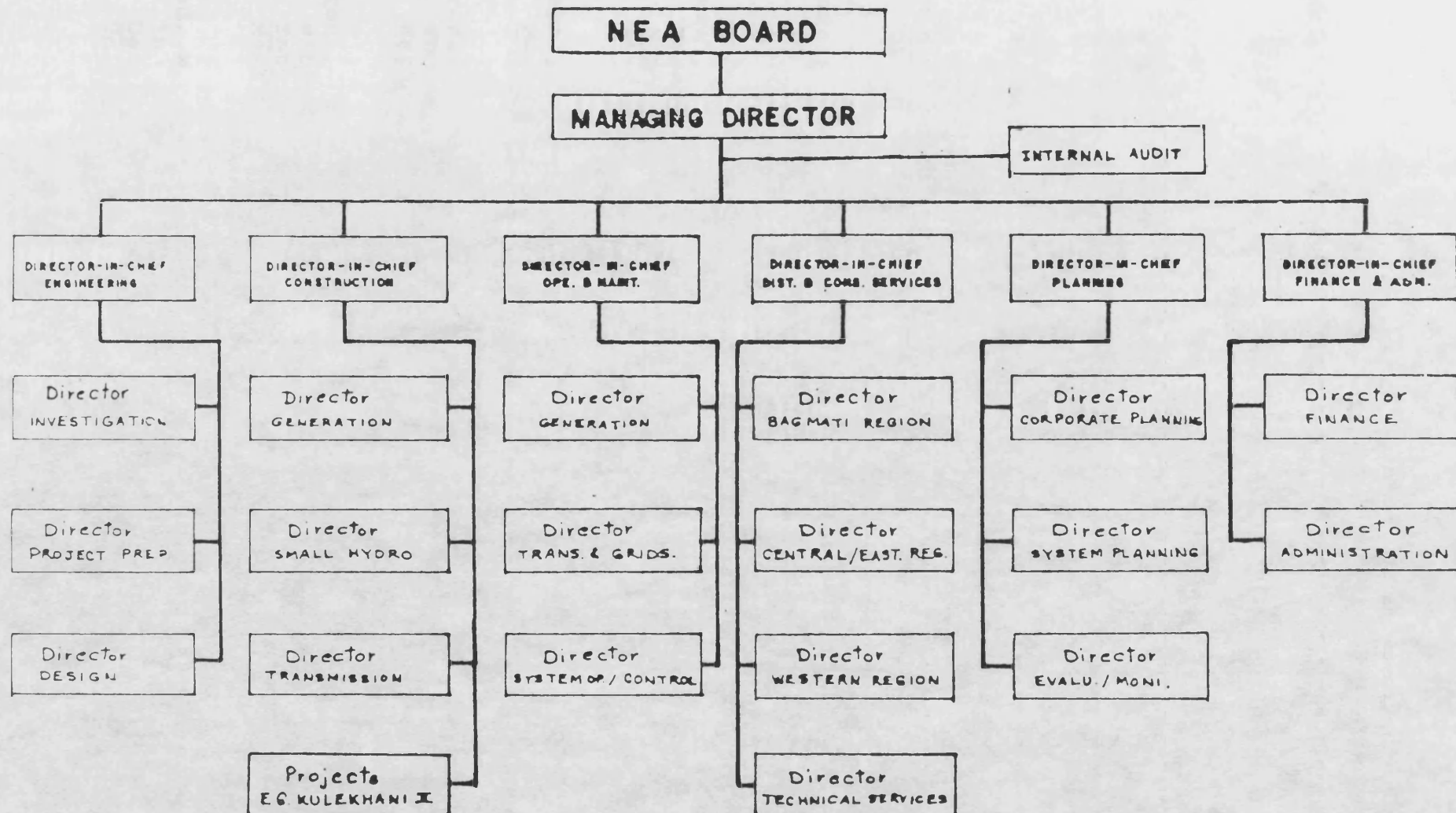








# NEPAL ELECTRICITY AUTHORITY ORGANIZATION CHART



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## SUMMARY

This thesis is concerned with exploring the process of change in government-owned and controlled enterprises, that is, the why and how of change and what happens during change, and particularly the role, participation and interactions of individuals in change. The literature on planned change and development is reviewed and it is argued that a "processual" interpretation is missing. On the other hand, very few research have been undertaken on the management of state-owned enterprises in less developed countries and little is known about the experiences and practices of organizational change in these enterprises.

An exploratory research of a major planned change is undertaken and the analysis of the case study reveal that change process can be interpreted in terms of a "political" model. Organizational change is the "resultant" of interactions among key actors and political dynamics may be caused by interests, conflicts and power exercised by the many actors who represent various stakeholders.

Change and order in organizations can be created by joint actions and the negotiated order theory (Strauss) further explores the notion of joint action. The politics of change is interpreted in terms of negotiations and it is argued that change may be a negotiated order. The contribution of the negotiated order theory is closely outlined and discussed and its application for a processual analysis of "problematic" situations (as created by a change situation) is recommended. However, it is also argued that this perspective needs to consider power as a key currency of all negotiations; power relationships can explain the components, occurrences and outcomes of negotiations. This is one of the main shortcomings in the development of the negotiated order theory.

A "political" approach to negotiation is suggested by conceptualising various definitions and interpretation of power relationships and their use in negotiative interactions. The negotiation of the organizational changes in the case study is interpreted in terms of such a framework.